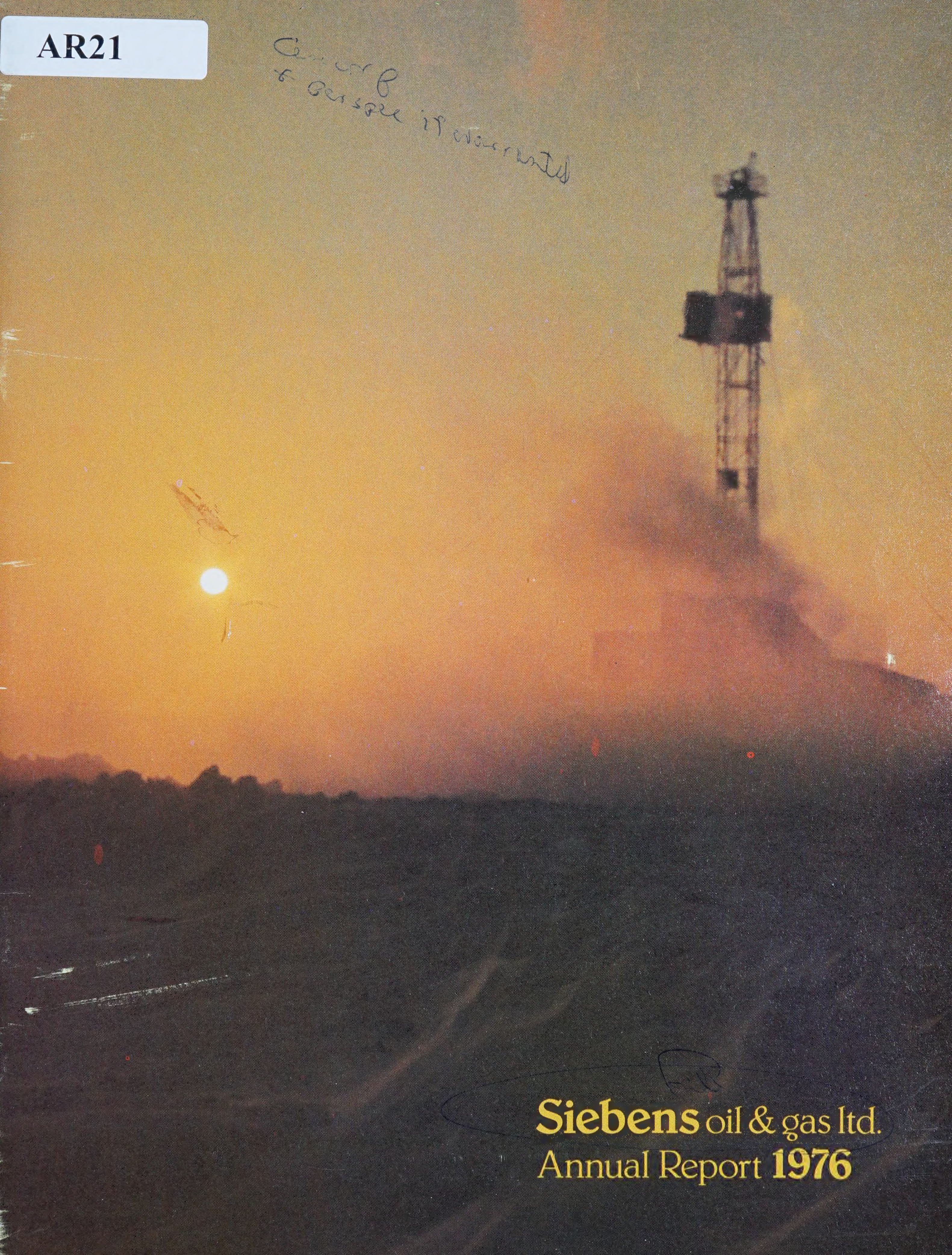


Siebens oil & gas ltd.
Annual Report 1976

About the Company

Siebens Oil & Gas Ltd. is a 98% Canadian-owned company involved in the exploration and development of oil and gas. Since it became publicly owned in 1970, the Company has successfully balanced an aggressive Western Canadian exploration program with a continuing interest in foreign and frontier areas. As a result, when measured in financial terms or proven reserves in the ground, the Company has exhibited tremendous annual growth. Interests in such foreign and frontier areas as the U.K. North Sea, Yemen and Beaufort Sea are not yet able to be measured in financial or reserve terms.

Active exploration will continue in the forthcoming years as the Company explores its abundant lease acreage and mineral titles in Western Canada.

The principal shareholders of the Company are Hudson's Bay Company Development Limited (3,203,000 shares or 34.8%), Harold W. Siebens who controls companies that own 3,201,000 (34.8%) shares and William Walter Siebens who owns 1,036,000 (11.3%) shares.

Annual Meeting

The Annual Meeting of Shareholders will be held on February 8, 1977 at 10:00 a.m. in the Lakeview Room, at the Calgary Inn, 320 - 4th Avenue S.W., Calgary, Alberta. A formal notice of this meeting, information circular and form of proxy are being mailed with this report.

Photo Credits:
Cover — Peter Matthews courtesy of Panarctic Oils Limited
Page 1 — Alan Brown
Page 6, 17 — Peter Matthews

Financial and Operating Highlights

Financial	1976	1975 (restated)	Increase (Decrease) Per Cent
Gross revenue	$18,861,000	$10,709,000	76
Cash Flow from operations	16,117,000	8,991,000	79
Per Share	1.75	.98	
Net Income	10,646,000	4,962,000	114
Per Share	1.16	.54	
Working Capital Deficit at October 31	(3,559,000)	(2,060,000)	(73)
Exploration and Development Expenditures	18,025,000	9,230,000	95
Shareholders' Equity	$37,753,000	$27,107,000	39
Shares Outstanding	9,198,856	9,185,065	—
Operating			
Crude Oil & Nat. Gas Liquids Production – Barrels Per Day	3,134	3,160	(1.0)
Natural Gas Sales – Thousand Cubic Feet Per Day	25,228	18,100	39.4
Proven and Probable Reserves in Barrel Equivalents (*)	46,301,745	36,565,000	26.6
Acreage Holdings			
Canada			
Gross	24,884,261	33,080,808	(24.8)
Net	10,391,810	14,156,057	(26.6)
Foreign			
Gross	5,282,397	9,037,020	(41.6)
Net	4,736,915	5,657,763	(16.3)
Royalty Acreage			
Canada	29,124,947	39,162,208	(25.6)
Foreign	17,794	20,248	(12.1)
Drilling Record			
Exploration			
Oil	7	5	
Gas	47	20	
Dry	48	12	
Development			
Oil	5	3	
Gas	56	29	
Dry	1	2	
Farmout and Royalty Wells			
Oil	—	4	
Gas	7	7	
Dry	3	12	
HBOG Wells			
Oil	34	29	
Gas	53	43	
Dry	35	15	

(*) Note — equivalent reserves for both years are calculated on the same basis.

Siebens
OIL & GAS LTD.

1976 Annual Report

Contents

To The Shareholders

It gives me a great deal of pleasure to report a year of exceptional growth by the Company during a period of unprecedented drilling activity and competition for mineral rights by Industry. Growth in earnings and cash flow continued as forecast in last year's Annual Report to Shareholders. It is especially gratifying to report that at the 1976 fiscal year end, 84 billion cubic feet of natural gas was added to the Company's net gas reserves.

During 1976 the economic climate for the resource industry improved considerably with the long overdue implementation of higher prices for crude oil and natural gas. If the Canadian domestic price of gas and oil is permitted to rise to international levels and provided Federal and Provincial Governments are reasonable in their royalty and taxation approach, another important step will have been made towards an optimum economic climate for the Canadian industry. This in turn, will give the incentives needed to find and develop the hydrocarbons vital to Canada.

As a result of higher prices and increased production volumes, the Company can report record financial performance for the year ended October 31, 1976. Compared to the prior year, gross revenue increased 76% to $18,861,000, Cash Flow improved 79% to $16,117,000 and net income of $10,646,000 represented an increase of 114%.

Funds used in the search for new supplies of oil and gas amounted to $18,025,000 in 1976, an increase of $8,795,000 over the 1975 expenditures. Approximately 94% of the Company's exploration and development expenditures were used to search for oil and gas in Canada.

In June 1976, the Company acquired approximately 83% of the outstanding shares of Cavalier Energy Inc. for $8,669,000. The acquisition of Cavalier Energy Inc. has added significantly to the Company's reserve base, provided new exploratory land holdings and enabled the Company to assume the operatorship of nine gas plants in Alberta.

An expanded and coordinated exploration team resulted in the Company becoming one of the most active drillers in Western Canada in fiscal 1976. The Company participated in 164 gross wells (104.5 net wells) and had an additional 132 wells drilled on its Mineral Title and working interest acreage, at no cost to the Company. Few companies can demonstrate this magnitude of drilling exposure. In the final analysis it is only successful exploration and development well programs that convert prospects to corporate profits.

The Company's affiliate, Siebens Oil & Gas (U.K.) Ltd., participated in the drilling of six North Sea wells during the past year. Siebens U.K. was operator for two of the tests with the 3/28-1 well encountering a thick, oil saturated, sandstone section of Paleocene age which proved to be non-productive when tested due to the high viscosity and low gravity of the contained oil. While indicated reserves of oil-in-place in this structure are large, they are not considered economic at this time. The Brae appraisal well, 16/7-3, encountered over 1000 feet of continuous Jurassic reservoir and tested oil at high flow rates. Two further appraisal tests are currently underway, the results of which should be announced shortly.

An agreement has been concluded with Marathon Oil Company relating to the three Brae blocks whereby Marathon will be assigned one half of Siebens U.K.'s interest in return for assuming all past and future exploratory and development costs on the blocks. The agreement provides that Siebens U.K. will receive cash flow from first production and, after recovery of development costs, will have one half of its former interest in the lands. An extensive appraisal and exploratory drilling programme has been committed to by Marathon on the Brae blocks. This agreement is subject to the approval of U.K. regulatory bodies.

Evaluation of the concession awarded last year to the Company under a Production Sharing Agreement with the People's Democratic Republic of Yemen has outlined a previously unrecognized sedimentary basin. We are encouraged by the presence of large seismic anomalies and a thick, prospective, Mesozoic geologic section.

Regulatory changes and wellhead price increases in Alberta and British Columbia have successfully stimulated exploration efforts to their highest historical level. However, the situation in Saskatchewan remains unchanged with most of Industry, including your Company, preferring to spend their exploration funds in areas where an acceptable return on investment can be expected. With the regulations pertaining to Federal lands still unresolved, there is unease in the Industry regarding escalating costs and stringent environmental requirements for frontier exploration which could limit exploratory drilling and delay the development of frontier reserves. Industry can accept sensible restrictions but cannot operate in a climate of unreasonable demands. Delays in mounting vigorous exploration in frontier areas will likely be translated into Canadian energy shortage in the longer term future.

While Industry has attained a high level of activity in Western Canada, there is some concern these efforts will not continue unless the special incentives offered by Alberta and British Columbia are extended and sustained. But the subject of most concern at this time is the large reserves of natural gas which recently have been found in these provinces and for which the producers have not been able to negotiate sales contracts. With buyers indicating they will not contract any additional gas reserves until November, 1978 or later, producers are finding themselves unable to convert their new gas reserves into near-term cash flow. This means there will be a drastic reduction in exploration within a few years unless some means is found to maintain producer income. The near-threshold volumes of natural gas in the frontier areas together with surplus gas reserves in Western Canada indicate adequate long-term supplies for this country. The most obvious method of alleviating this current gas surplus is by exporting it to the United States under short-term contracts. Gas export would provide the necessary cash flow required to explore for additional reserves of both petroleum and natural gas in Canada and would favourably assist this country's international balance of payments.

Forthcoming Year

A continued active exploration and development programme is envisioned for the forthcoming year. The Company plans to participate in or drill a minimum of 110 exploratory and development wells in Western Canada during 1977. As well, at least 70 wells will be drilled by others on our Mineral Title and other lands in the same period.

As in prior years the major portion of cash flow will be utilized in exploration and development in Western Canada. If there are no adverse economic and political factors affecting growth in 1977, the Company estimates that for the next fiscal year (October 31, 1977) consolidated gross revenue will increase 50% to $28,000,000, cash flow will increase 30% to $21,000,000 and net earnings will increase a similar percentage of 30% to $13,700,000.

The achievements of the past year are due, in large part, to the efforts of our employees. The Board appreciates their dedication and wishes to thank them for their support.

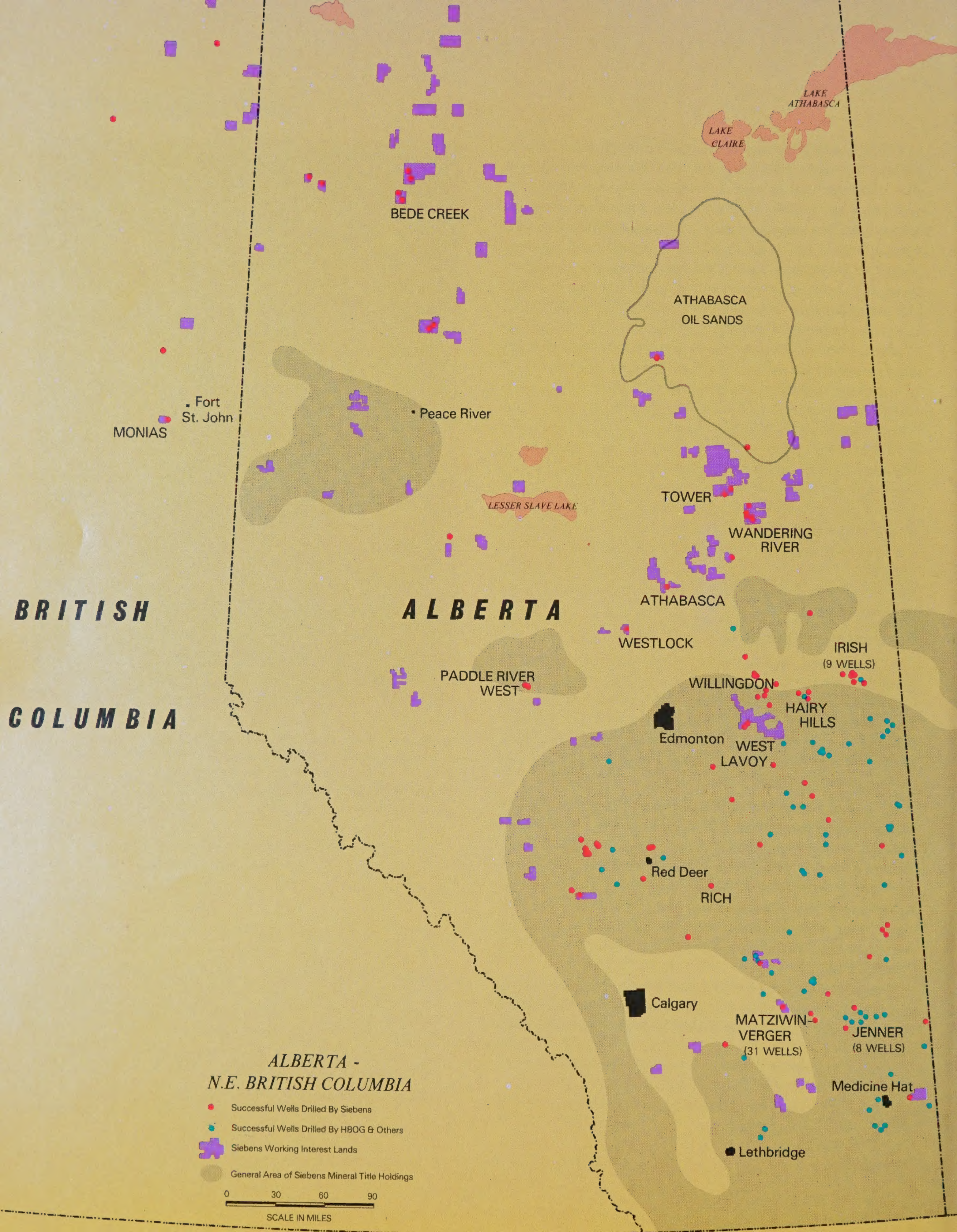
On Behalf of the Board

Wm. W. Siebens

W. W. Siebens
President

December 17, 1976

In November, 1976, Siebens Oil & Gas Ltd., was honored by having its 1975 Annual Report judged Second Best in the Junior Oil Companies Division of the Oilweek Magazine Annual Report Program. The plaque commemorating the award is shown in the photograph above.


LAKE ATHABASCA
LAKE CLAIRE
BEDE CREEK
ATHABASCA OIL SANDS
Fort St. John
MONIAS
Peace River
LESSER SLAVE LAKE
TOWER
WANDERING RIVER
ATHABASCA
BRITISH
COLUMBIA
ALBERTA
WESTLOCK
IRISH
(9 WELLS)
PADDLE RIVER WEST
WILLINGDON
HAIRY HILLS
Edmonton
WEST LAVOY
Red Deer
RICH
Calgary
MATZIWIN-VERGER
(31 WELLS)
JENNER
(8 WELLS)
Medicine Hat
Lethbridge
ALBERTA -
N.E. BRITISH COLUMBIA
Successful Wells Drilled By Siebens
Successful Wells Drilled By HBOG & Others
Siebens Working Interest Lands
General Area of Siebens Mineral Title Holdings
0
30
60
90
SCALE IN MILES

Canadian Exploration

Year In Review

The most significant accomplishment of Siebens Oil & Gas Ltd. during fiscal 1976 was the vastly expanded drilling programme and its resultant increase in recoverable reserves. The Company had the distinction of being one of the most active exploration companies in Western Canada during 1976. A total of 164 gross wells were drilled or participated in by the Company during the 12 month period ending October 31, 1976. This represents a 230 percent increase over the 71 wells drilled in 1975. The above noted drilling programme plus the acquisition of Cavalier Energy Inc. increased the Company's net gas reserve position some 84 billion cubic feet to a total of 265 billion cubic feet, a 46 percent rise.

Well Completions

	Gross Working Interest 1976	Gross Working Interest 1975
Exploratory		
Oil	7	5
Gas	47	20
Dry	48	12
Development		
Oil	5	3
Gas	56	29
Dry	1	2
Total	164	71

Third Party Completions	Oil	Gas	Dry	Total
*HBOG Agreement	34	53	35	122
Royalty Wells	—	7	3	10

*Not verified by HBOG

The adjoining table shows that the Company participated in 102 gross exploratory wells (76 net) compared to 37 gross (31.8 net) wells in 1975. This increase reflects the emphasis which the Company has placed on finding new reserves and marks the success of our expanded exploration staff. It is especially reassuring to find our drilling success ratio has far surpassed the industry average.

The number of participation development wells drilled in fiscal 1976 increased 82 percent from the previous year: a total of 62 gross (28.5 net) development wells as compared to 34 gross (8.3 net) wells in 1975.

The 122 wells drilled by Hudson's Bay Oil and Gas Company Limited, or its designated farmees, on Mineral Title acreage owned by Siebens resulted in additional reserves and revenue which compliment the activities of the Company. HBOG holds a long term option on these properties reserving to Siebens a 20 percent Lessor's Royalty on both oil and gas.

Some of the areas in which successful exploratory drilling occurred are highlighted on the adjacent map and are discussed briefly below:

Jenner

18 wells were drilled in the Jenner area this past year resulting in 18 completed gaswells. Several of the wells were multi-zone completions and all but 4 were drilled on unencumbered Mineral Title acreage. Another 5 wells are proposed for early 1977.

Rich

The 2 gaswells drilled on this prospect proved up substantial reserves. As a result of our success, several follow-up wells were drilled by other companies, extending the play. The Company is now moving ahead with the development of its acreage holdings along the trend and acquiring additional Crown lands.

Paddle River West

2 gaswells were completed and tied in this past year on Mineral Title acreage owned by Siebens. Reserves have also been proven to underlie offsetting lands owned by the Company.

Irish

A major farmin involving 12,800 acres was negotiated in the Irish area. A total of 9 exploratory wells were drilled resulting in 7 gaswells and 2 abandonments. Siebens Mineral Title acreage falls within the Farmin area and an evaluation of these lands was achieved. The Company has a continuing option to drill 4 more wells.

Willingdon

The Company was successful in farming-in 1,920 acres in the Willingdon area. The prospect also contains 640 acres of Siebens Mineral Title acreage and three gaswells and one dry hole have been drilled thus far. This gas will go on stream in 1977.

Bede Creek

Siebens holds a 100% working interest in a forty-two section (26,880 acres) P & NG Reservation in this area. Three gaswells were completed by the Company during the 1975/76 winter drilling season. A multi-well drilling programme is planned for the 1976/77 winter season.

Westlock

A nine section (5,760 acres) farmin was negotiated in this area and one gaswell has been drilled. Two follow-up wells are proposed for the upcoming winter drilling season. Approximately 10 miles due west, a nine section P & NG Exploratory Licence was acquired and one gaswell has been drilled with up to four appraisal wells proposed for this coming winter.

Monias, B.C.

The Company participated in the drilling of an exploratory well in the Monias Prospect, B.C. and by so doing, earned a net 26% interest in approximately 8,000 acres. The test has been completed as a gaswell and at the time of writing, additional exploratory drilling is being carried out to define the areal extent of the prospect.

Cavalier Energy Inc. — Acquisition

On June 24, 1976, the Company made a purchase offer to all shareholders of Cavalier Energy Inc. At the time of writing, 83% of the outstanding shares have been purchased and Siebens thus holds the controlling interest in Cavalier. The purchase involved the acquisition of approximately 640,000 gross acres, the majority of which are located in Alberta. Some of the properties are currently on production and additional properties will be placed on production in the first half of 1977.

Regulatory Changes

Federal Petroleum Land Tenure Regulations were suspended in 1970 and new Regulations proposed in May, 1976. During the interim, exploration companies operating on lands under Federal jurisdiction were uncertain about future royalty rates and concerned that future leasing regulations would not be equitable.

Industry has criticized certain aspects of the proposed regulations. Hopefully these problems will be resolved before the regulations are promulgated by Parliament. The advantages proposed to be given to the national oil company Petro Canada, are the most contentious.

In British Columbia, Provincial Government policy regarding exploration incentives and price structure of products has revived exploration and, as a result, the Company has taken an aggressive approach to acquiring prospective lands within the Province. Extensive exploratory work is anticipated on these lands next year.

The Company continues its positive approach toward land acquisitions in the Province of Alberta where new Land Regulations came into effect on July 1, 1976. The main changes reduce the life of new leases to five years from ten years and the different types of P & NG dispositions have been simplified so that only two forms, the P & NG Lease and the P & NG Exploratory Licence, will be in effect. As well, the Regulations call for the surrender of deeper, non-productive rights in areas formerly held by companies producing the shallower zones. These changes will result in a more rapid turnover of leases and stimulate evaluation of deeper, prospective horizons.

Siebens has not conducted any drilling in Saskatchewan this past year due to that Province's high royalty rates. However, the Company continues to monitor the political environment and the geological potential of certain areas within the Province in the event conditions should improve.

Canadian Land Holdings

Highgrading of our Eastern Canada — offshore holdings has resulted in the surrender of approximately 7.4 million gross acres in the offshore Baffin Island area. In the Northwest Territories, approximately 70,000 gross acres were surrendered after evaluation while about 35,000 gross acres were converted to royalty interest. In the Mackenzie Delta-Beaufort Sea area, 248,158 gross acres were converted to royalty interest while in Hudson Bay, approximately 1.3 million gross acres were surrendered to the Federal Government after evaluation of the seismic programmes conducted this past year over the blocks of permits.

In Alberta, approximately 203,000 gross acres were added to our land inventory in the form of P & NG Reservations and P & NG Exploratory Licences. This is a reflection of the Company's approach toward acquisition in geologically attractive areas and was accomplished with an expenditure of about $1,466,000. In British Columbia, the Company increased its holdings by approximately 200,000 gross acres at a cost of $282,800 and by participation in exploratory drilling.

The increases in Alberta and Saskatchewan leases of approximately 640,000 gross acres reflects the acquisition of Cavalier Energy Inc., a subsidiary of the Company.

The Company is continuing to scrutinize its Mineral Titles acquired from the Hudson's Bay Company in 1973 and this past year has surrendered over 388,000 acres in Saskatchewan. This was a direct result of the high mineral acreage tax in that Province.

Canadian Land Holdings

Working Interest Properties

Geographical Area	Nature of Interest	Gross Acres 1976	Gross Acres 1975	Net Acres 1976	Net Acres 1975
Alberta	P & NG Reservations	**1,109,741**	943,181	**1,003,511**	854,863
	Drilling Reservations	**14,080**	28,480	**5,280**	14,284
	Permits	**7,880**	19,240	**7,880**	16,040
	P & NG Exploratory Licences	**45,266**	—	**31,146**	—
	NG Licences	**32,000**	—	**13,440**	—
	Leases	**1,336,252**	653,890	**662,506**	429,755
	Mineral Titles	**1,603,575**	1,603,575	**1,603,575**	1,603,575
Saskatchewan	Leases	**163,824**	118,521	**66,240**	36,170
	Mineral Titles	**941,102**	1,327,146	**941,102**	1,227,146
British Columbia	Permits	**328,345**	129,315	**92,727**	47,267
	Leases	**44,949**	8,157	**5,956**	1,906
Manitoba	Mineral Titles	**38,869**	38,869	**38,869**	38,869
	Leases	**360**	—	**360**	—
Northwest Territories	Permits	**129,447**	230,371	**67,724**	115,191
Mackenzie Delta-Beaufort Sea	Permits	**302,612**	550,727	**151,306**	275,365
Hudson Bay	Permits	**3,236,718**	4,516,634	**188,700**	454,242
Eastern Canada-Offshore	Permits	**4,359,870**	11,723,331	**2,714,147**	6,244,043
Arctic Islands	Permits	**11,189,371**	11,189,371	**2,797,341**	2,797,341
		24,884,261	33,080,808	**10,391,810**	14,156,057

Note: These lands include holdings of Cavalier Energy Inc., a subsidiary of the Company.

Royalty Interest Properties

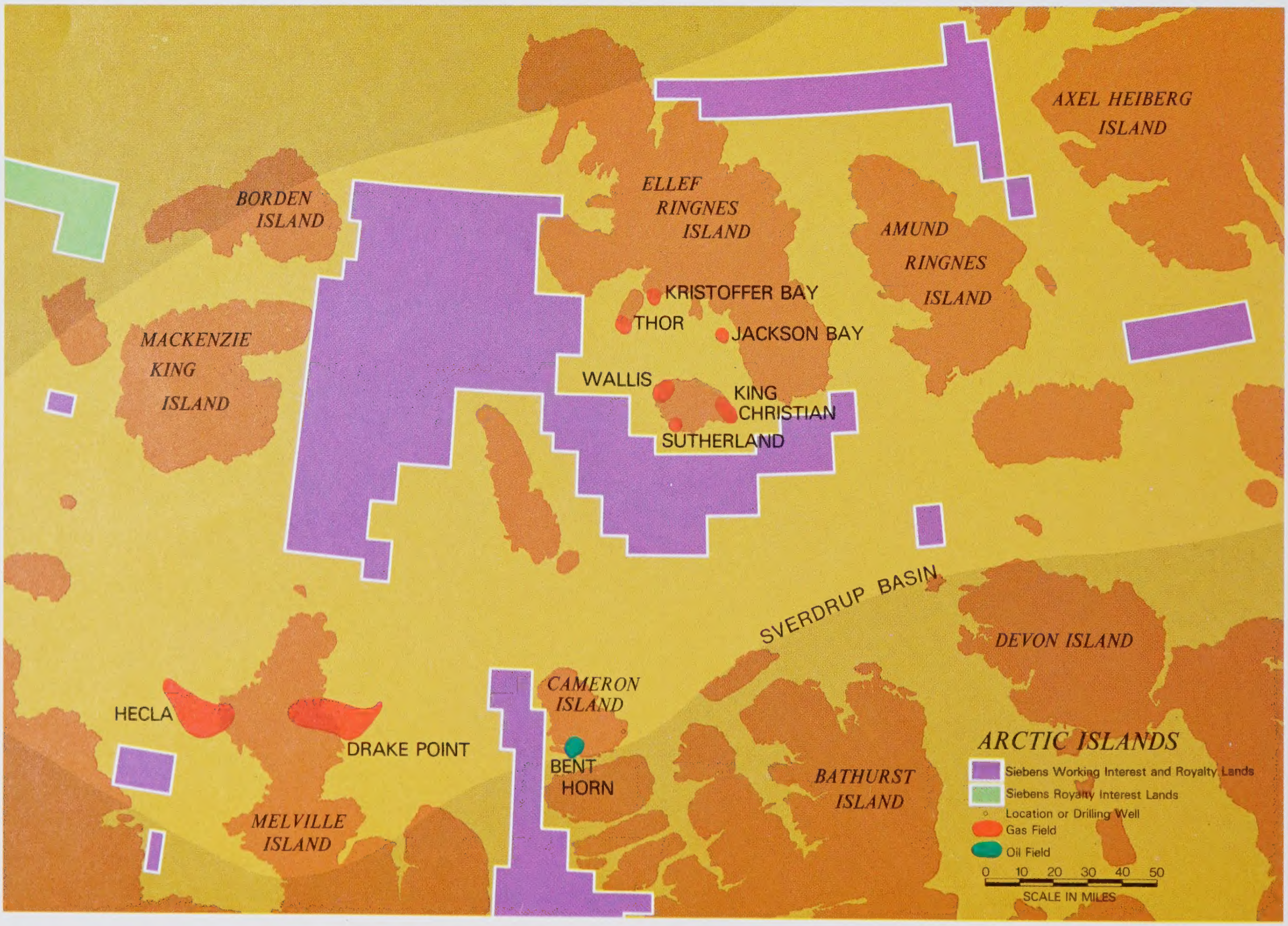
Geographical Area	Gross Royalty Acreage 1976	Gross Royalty Acreage 1975
Alberta	**525,756**	612,767
Saskatchewan	**66,524**	86,850
British Columbia	**151,439**	355,789
Hudson Bay	**3,236,718**	6,569,064
Northwest Territories	**4,227,983**	5,764,607
Beaufort Sea & Liverpool Bay	**3,321,671**	3,202,797
Arctic Islands	**16,720,200**	18,879,583
East Coast — Offshore	**874,656**	3,690,751
	29,124,947	39,162,208

Arctic Islands

The recent announcement by Sun Oil Company Limited and Global Arctic Islands Limited of a farmout of a portion of their interest in about 33 million acres spread throughout the Arctic Islands is particularly encouraging at this time. The participation of Imperial Oil Limited, Gulf Oil Canada Limited, Petro Canada Exploration Inc. and Panarctic in exploratory drilling on these lands, the majority of which are located offshore, means that a major infusion of new drilling money will occur over the next three to four years in addition to the funds that Panarctic will spend itself on exploration. Sun and Global Arctic's share of future exploratory drilling costs will be provided by the $80 million committed by the farmin group to earn their interest. As Sun and Global Arctic are not the only partners in these lands, the $80 million expenditure is a minimum figure with other interest owners providing additional drilling funds.

The above noted farmout is of particular significance to the Company because of its 25 percent working interest in approximately 10.4 million gross acres, all of which lands are included in the 33 million acres farmed out by Sun and Global Arctic. The Company's interest in these lands is subject to an agreement with Phillips Petroleum Canada Ltd. By meeting all work obligations for permit renewals, Phillips will have an option to commence or join a multi-well exploratory drilling programme on the lands in order to earn its interest. Throughout the accelerated drilling programme now foreseen to occur in the Arctic Islands during the next three to four years, the Company will retain a sizeable interest in these lands which will be carried by Phillips. Exploration activities during the next several years will appraise this potential area and the Company would benefit from any commercial discoveries made on its working interest properties.

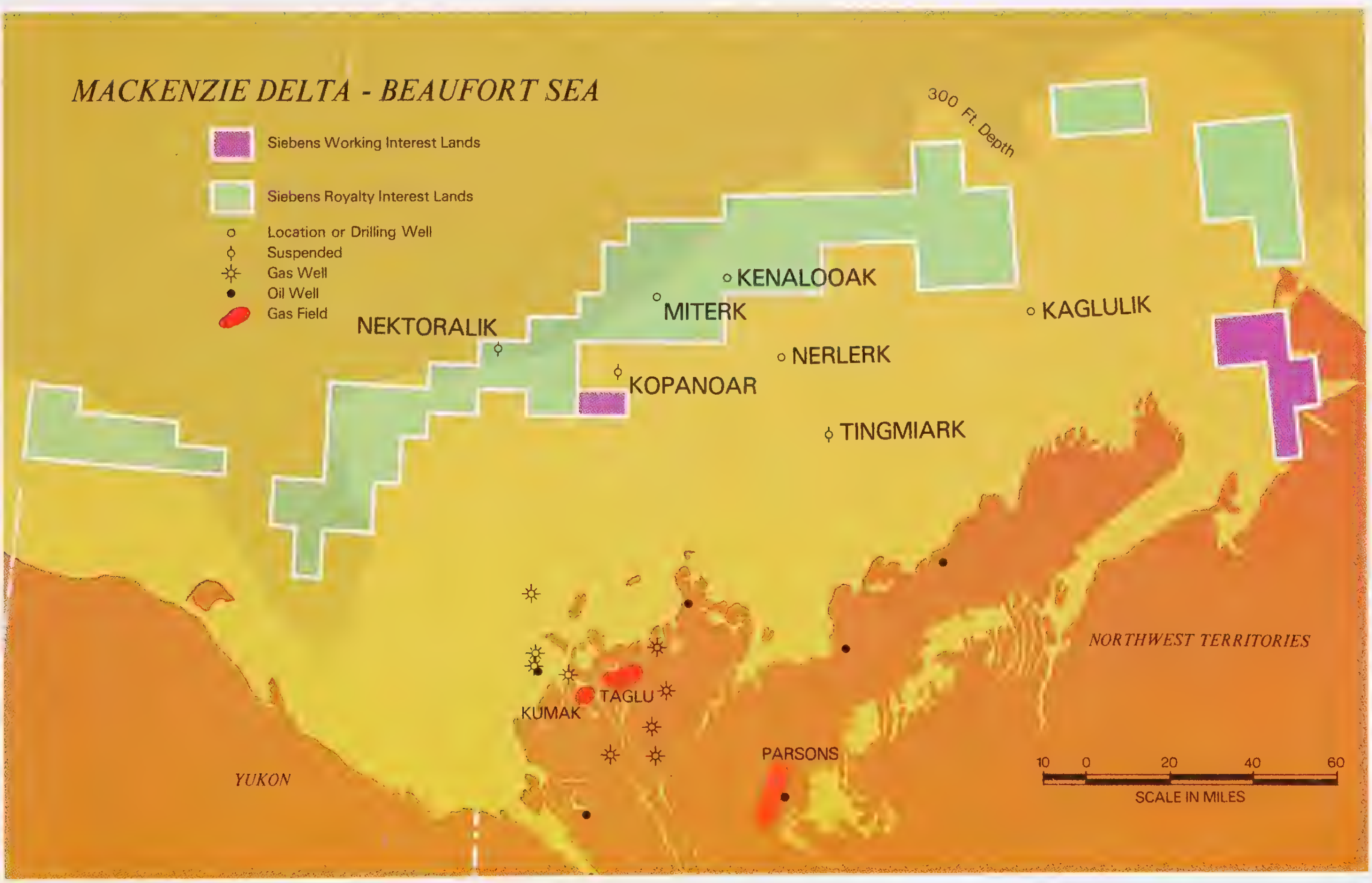
Follow-up drilling to the oil discovery at Bent Horn on Cameron Island by Panarctic Oils Ltd. has proven up commercial quantities of petroleum. The Bent Horn A-02

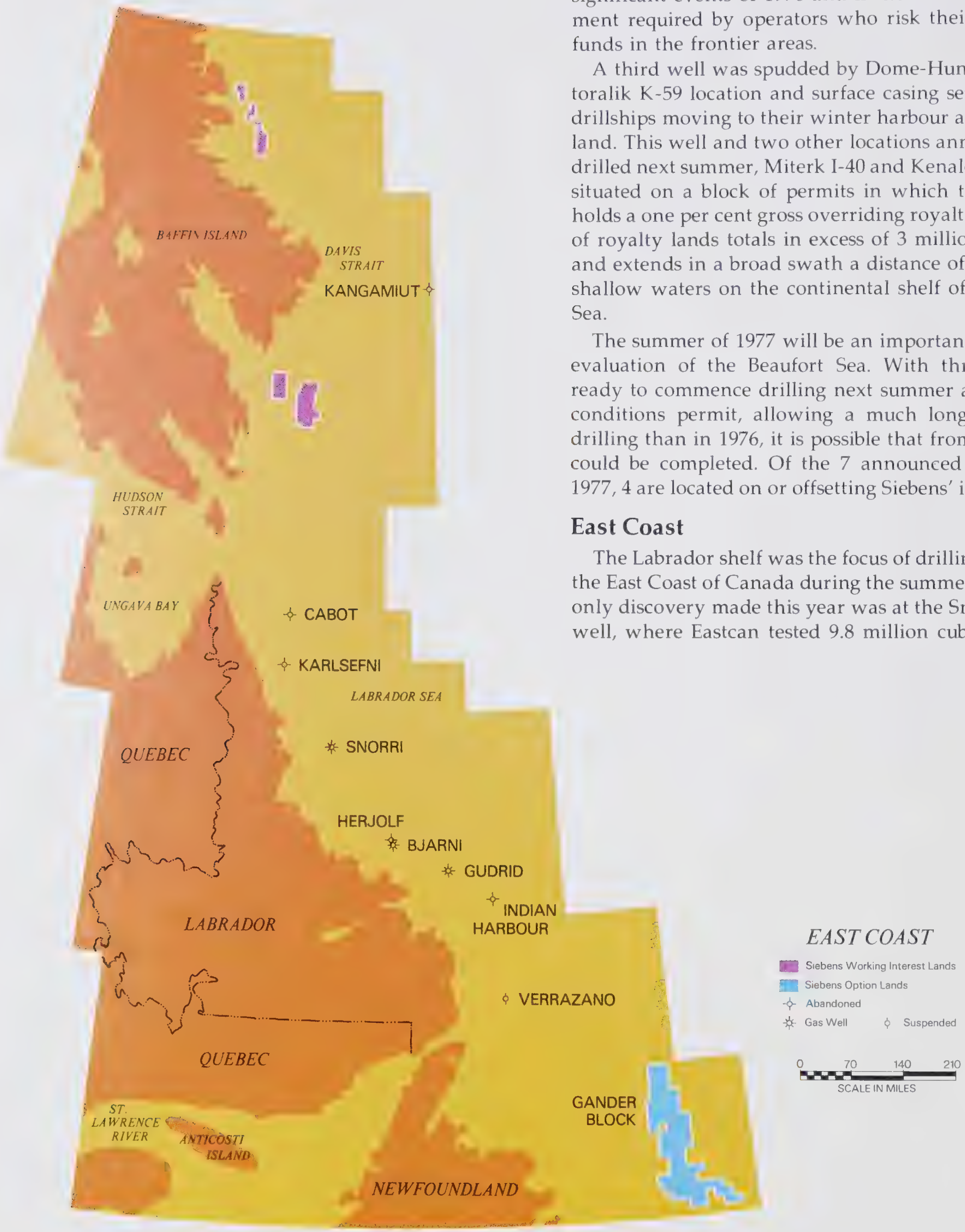


wildcat completed in June, 1976 encountered over 1,000 feet of oil column which flowed at rates up to 6,000 b/d and averaged 3,500 b/d over a 35-day period with no formation water and a low gas/oil ratio. Panarctic is extending its search for additional Devonian reef reserves along the southern margin of the Sverdrup Basin in order to justify development and marketing of the oil. Six wells are planned to be drilled during the 1977 season on Cameron Island. Threshold reserves required to construct a pipeline to the southeast coast of Bathurst Island are estimated to be about 300 million barrels and Panarctic has indicated the Bent Horn field may have the potential to exceed this threshold volume. For the 1977 drilling season, Panarctic has budgeted in excess of $70 million toward developing threshold gas reserves to permit marketing and to develop the Bent Horn oil discovery. In this regard, Panarctic recently accepted the offer of Home Oil Company to purchase 30.5 million dollars worth of the common shares of Panarctic treasury stock amounting to 5.633 percent of the total issued shares. These funds will be used by Panarctic in an expanded exploration programme to be conducted during the next three years.

Mackenzie Delta — Beaufort Sea

The arrival of three ice-strengthened drillships and several support vessels in the Beaufort Sea this past summer was the main hurdle overcome by Canadian Marine Drilling Ltd. in commencing a 15-well exploratory drilling programme scheduled to continue during the next four or five years. The drillships, operated by Dome Petroleum Ltd. on behalf of a group of exploration firms, commenced drilling in early August. The Tingmiark K-91 was drilled to a total depth of about 10,000 feet after encountering indications of natural gas. The well was subsequently plugged and suspended and is planned to be re-entered next summer. The Kopanoar D-14 well was junked and abandoned following the penetration of a shallow, high pressure, fresh water zone. The well was respudded a short distance away and surface casing set. Plans are to re-enter the well next summer. The Kopanoar well is located 3½ miles north of Permit W2569 in which the Company holds a 50 per cent working interest covering 43,255 gross acres. The indicated success of the Tingmiark well is probably one of the most





significant events of 1976 and is the kind of encouragement required by operators who risk their exploration funds in the frontier areas.

A third well was spudded by Dome-Hunt at the Nektoralik K-59 location and surface casing set prior to the drillships moving to their winter harbour at Herschel Island. This well and two other locations announced to be drilled next summer, Miterk I-40 and Kenalooak J-94, are situated on a block of permits in which the Company holds a one per cent gross overriding royalty. The spread of royalty lands totals in excess of 3 million gross acres and extends in a broad swath a distance of 285 miles, in shallow waters on the continental shelf of the Beaufort Sea.

The summer of 1977 will be an important year for the evaluation of the Beaufort Sea. With three drillships ready to commence drilling next summer as soon as ice conditions permit, allowing a much longer period of drilling than in 1976, it is possible that from 3 to 6 wells could be completed. Of the 7 announced drillsites for 1977, 4 are located on or offsetting Siebens' interest lands.

East Coast

The Labrador shelf was the focus of drilling activity off the East Coast of Canada during the summer of 1976. The only discovery made this year was at the Snorri re-entry well, where Eastcan tested 9.8 million cubic feet of gas

and 235 barrels of condensate. Snorri lies some 160 miles northwest of the earlier Bjarni discovery and extends the potential of the Labrador play further toward offshore Baffin Island. The Karlsefni, Indian Harbour and Herjolf wells were abandoned while the Verrazano well will be re-entered next summer. It is understood the Eastcan group will use at least three rigs next year in this ongoing exploration and appraisal programme.

During 1976, the Company reduced its land holdings off the coast of Baffin Island from approximately 8½ million gross acres to 1,834,354 gross acres. Canada-Cities Service Ltd. has earned a 25 per cent working interest in the lands after completing an extensive marine seismic survey. The Company has selected certain permits from its original land holdings which provide indications of large seismic anomalies. The balance of the lands have been surrendered back to the Federal Government as the acreage was deemed non-prospective. This high-grading process, normal for large tracts of exploratory acreage, considerably reduces our inventory of East Coast permits.

During the fall of 1976, sea bottom surveys were initiated on several likely drillsites located on the retained lands in which the Company holds a 47.625 per cent interest. Extensive ecological and environmental studies will be required before drilling is permitted offshore Baffin Island. These studies will be undertaken jointly with other permit holders in the area in preparation for a drilling programme which could commence in 1978 or 1979.

Across Davis Strait, to the east, one well was completed last summer on a Greenland concession awarded by the Danish Government. The well, operated by the Total-Gulf-Aquitaine group was reported as dry and abandoned and had a projected depth of 13,000 feet. Three exploration groups plan to drill wells offshore west Greenland next summer and any successful drilling in this region would have important implications for the Baffin Island continental shelf, as these areas have great geological similarity.

The Company has committed to participate in the drilling of two exploratory tests which will be commenced in 1978 or 1979 on the Gander Block, situated some 160 miles east of Newfoundland on the continental shelf. By expending 10 per cent of the total maximum commitment of $20 million, Siebens will earn a net 5 per cent interest in 5,565,586 gross acres. Participants in the farmout from Shell Canada Limited in addition to Siebens are Texaco Canada Limited, Petro Canada Ltd., Home Oil Company Limited and Hudson's Bay Oil & Gas Co. Ltd. The dimensions of the structures are impressive and of the size necessary to warrant such an expensive drilling programme in what has been, to date, unexploitable water depths. The rewards, in this case, could be commensurate with the risks involved.

Other Activities

Introduction

While showing significant success in the exploration for petroleum and natural gas over the past three years, the Company has attempted to expose itself to other areas of mineral or energy exploration. The catalyst for some of this exploration resulted from certain assets acquired from Hudson's Bay Company Resources Limited in 1973. Some of the areas in which the Company is involved are discussed briefly below.

Athabasca Oil Sands

Recent discussions between the Alberta and Federal Governments regarding the possibility of attaining one million barrels per day oil production from the Athabasca oil sands by 1990 indicate incentives, which are required to justify new plant construction, may soon be forthcoming.

The Company holds a 1.6 percent royalty position in 36,638 gross acres and 1.75 percent royalty in an additional 49,964 gross acres situated in the immediate vicinity of the GCOS Plant and the Syncrude Projects. These interests remain a valuable Company asset.

Potash and Coal Rights

The acquisition of Hudson's Bay Company Resources was primarily for the Petroleum and Natural Gas Rights underlying the acquired mineral titles in Alberta, Saskatchewan and Manitoba. But other important industrial minerals were included in the mineral title purchase. The Company receives approximately $200,000 annually in royalty income from the few Potash and Coal leases granted to third parties prior to the Company's takeover of HBR.

The increasing market value of potash and the rising importance of Western Canadian coal (primarily in Alberta) as an alternate energy source has caused the Company to postpone any further dealings on potash or coal properties until a full evaluation of these assets can be made.

Geothermal Properties

The Company has increased its participation from 16.0 to 25.715 per cent in a Canadian group of companies holding applications for geothermal leases in the northwest United States covering 264,000 acres. The group has continued exploration on these properties over the past year and is pleased with the results of its progress to date. Approximately $700,000 has been expended by the group on acquisition and exploration costs and a continued programme of geological upgrading of the properties will be carried out in the coming fiscal year.

Uranium Exploration

As reported last year, your Company has joined Aquitaine Company of Canada Ltd., an experienced uranium explorer and developer, in exploring for this valuable energy source. Aquitaine, as operator, has recently filed a large number of mineral claims on some very interesting uranium shows in the Yukon Territories. Two hundred and fifty-six claims have been staked in the Pugwash Basin in Nova Scotia where encouraging geochemical anomalies have been encountered. A number of core holes were drilled this summer in another area of Canada and the potential of this area is being further assessed.

The Mingan Islands

The Company acquired 22 of the Mingan Islands as a result of the 1973 purchase of HBR. They consist of an archipelago of islands, stretching some 50 miles along the north shore of the St. Lawrence River, about 700 miles northeast of Montreal. Accessible only by water, the Mingans were purchased by the Hudson's Bay Company in 1836 from descendants of Louis Jolliet, who acquired them from the Comte de Frontenac in 1679. The Mingans are unique for their pure limestone deposits. A 1972 geological survey taken by HBR claims the Islands contain a minimum of 90 million tons of quarryable limestone, much of it up to 97% pure.

The significance of this information and the economic and market aspects of these deposits are presently under investigation by the Company.

International Exploration

United Kingdom

Siebens Oil & Gas (U.K.) Ltd., a 31.7 per cent owned affiliate of the Company, participated in the drilling of six offshore wells in the U.K. this past year. A second appraisal well, 2/10-3, was drilled offsetting the indicated oil discovery well, 2/10-1, reported last year. This well encountered shows of oil and gas while penetrating the Jurassic section, but upon drillstem testing, the reservoir was found to be undersaturated with hydrocarbons, indicating migration of the former accumulation. The well was subsequently abandoned. Siebens (U.K.) then drilled an exploratory well in Block 3/28 to evaluate a Paleocene structure. The well, 3/28-1, penetrated approximately 200 net feet of highly porous, heavily oil-saturated sandstone, which would not flow on drillstem testing due to its 18.5° API gravity and high viscosity. The estimated in-place oil reserves in this structure are very high but the accumulation is not economic at this time.

In January, 1976, the first Brae Field appraisal well was completed some 6 kilometers southwest of the Brae discovery in Block 16/7. This well, 16/7-3, encountered over 1,000 feet of continuous reservoir and when tested, flowed at combined rates totalling 13,939 barrels of 36° API gravity oil per day with a gas/oil ratio of about 1,600 cubic feet per barrel. The second appraisal well, 16/7-4, located 4 kilometers south-southwest from 16/7-3, was abandoned in October, 1976 having found hydrocarbon shows in the Upper Jurassic which would not sustain flows during testing. The 16/7-4 well has helped to delineate the western margin of the Brae Field. At the time of writing, two further appraisal wells, 16/7-5 and 16/7-6, are actively drilling.

Siebens (U.K.) recently concluded an agreement with Marathon Oil Company to assign one-half of its 8 per cent interest in Blocks 16/7 and 16/3 and one-half of its 10 per cent interest in Block 16/2 in return for Marathon assuming all of Siebens (U.K.)'s past and future exploratory and development expenditures on the three Brae blocks. This agreement is subject to approval by certain U.K. governmental bodies. Under the terms of the agreement Siebens (U.K.) will receive cash flow from first production; when development costs are recovered from production proceeds, Siebens (U.K.) will have a 4 per cent working interest in Blocks 16/7 and 16/3 and a 5 per cent working interest in Block 16/2. Marathon has committed to an extensive exploration and appraisal programme on these lands.

In October, 1976, Siebens (U.K.) submitted an application for new Production Licences to the U.K. Department of Energy in its Fifth Round of Awards.

NORTH SEA
Siebens Working Interest Lands
Gas Field
Oil Field
Gas Pipelines
Completed
Proposed or Under Construction
Oil Pipelines
Completed
Proposed or Under Construction
Gas Well
Oil Well
Location or Drilling Well
Abandoned
Suspended Oil Well
0 50 100
SCALE IN MILES
SHETLAND ISLANDS
ORKNEY ISLANDS
COTLAND
ENGLAND
NORWAY
DENMARK
GERMANY
NETHERLANDS
St. Fergus
Aberdeen
London
Magnus
Thistle
Murchison
Tern
Statfjord
Cormorant
Dunlin
Brent
Heather
Hutton
2/10
Ninian
Alwyn
205/30
Odin
3/28
9/4
E. Frigg
Frigg
Heimdal
Beryl
Crawford
16/2
16/3
16/7
Brae
Piper
Tartan
Claymore
Sleipner
Maureen
Andrew
Buchan
Forties
Montrose
United Kingdom
Norway
Cod
Josephine
Ekofisk
Auk
Argyll
Norway
Denmark
'N'
Dan
'A'
A-10
Germany
Netherlands
Denmark
Germany
J-10
J-13
J-15
M-3
F-18
Rough
West Sole
Ann
Amethyst
Viking
K-7
Indefatigable
L-10
Hewett
Leman Bank
Dotty
United Kingdom
Netherlands
Belgium
NINIAN
2/10
ALWYN
United Kingdom
Norway
3/28
ODIN
9/4
FRIGG
0 25
SCALE IN MILES
HEIMDAL
BERYL
CRAWFORD
16/2
16/3
16/7
BRAE
0 25
SCALE IN MILES
J-10
J-13
J-15
Helgoland Is.
M-3

German North Sea

In October, 1976, drilling commenced on a 17,000 foot Rotliegendes test located in Block J13 in the German portion of the North Sea. Siebens (U.K.) holds a 45 per cent working interest in German Blocks J10, J13, J15 and M3. Under an agreement with Mobil Oil AG, Mobil may earn an undivided 22½ per cent interest in Blocks J13 and J15 by reimbursing certain prior costs and paying Siebens (U.K.)'s 45 per cent share of the cost of two exploratory wells. The second well, a 7,000 foot Zechstein test, should be drilled later in 1977 in either Block J13 or J15. Mobil also has an option, subject to similar obligations, to earn a 22½ per cent interest in Block J10. At the time of writing, the J13 deep exploratory well was drilling below 15,000 feet and should be completed in January, 1977.

A joint seismic anomaly which extended from Block M3 into Block J18 was evaluated by the Valmar group early in 1976 and subsequently abandoned.

South Yemen

In July, 1975, the Company negotiated a Production Sharing Agreement with the People's Democratic Republic of Yemen covering a 4.3 million acre area south of the Island of Socotra. A 2,000 mile marine seismic survey was conducted in two phases early in 1976, detailing a previously unrecognized sedimentary basin south of the Island. It is believed the majority of the sediments, which in places exceed 30,000 feet thickness, are pre-Miocene and were deposited prior to the Gulf of Aden separation when Socotra and the adjoining shelf were part of the Arabian Plate. The presence of several unconformities are thought to be associated with the Lower Cretaceous and older Mesozoics which are productive in both onshore Arabia and the Arabian Gulf. Block faulting has created several very large closed structures, one of which covers 75,000 acres with 1,700 feet of vertical relief. The Company is presently negotiating with a potential partner to share the exploration of this large and prospective area.

Viet Nam

Siebens Oil & Gas Ltd. was a member of a four company group that was awarded two blocks offshore Viet Nam in July, 1973. After completing a 4,000 mile marine seismic survey and outlining several drillable structures, the group was preparing to commence a multi-well drilling programme when the fall of the Republic of Viet Nam caused these plans to be suspended. The Government of the Socialist Republic of Viet Nam subsequently cancelled all previous offshore concessions but has indicated its willingness to renegotiate the terms of agreement with former concessionaires. Representatives of the now all-Canadian group recently attended meetings in Hanoi relating to the exploration and development of the formerly held blocks and it is expected further discussions will be held.

Foreign Land Holdings

Location	Type of Ownership	Gross Acres	Net Acres
Germany (1)	Exploration Permits	354,199	159,390
Netherlands (1)	Exploration Licence	31,876	3,188
United Kingdom (1)	Production Licences . . .	366,801	183,079
United States of America (2)			
Alaska	Petroleum Leases	22,125	11,062
Montana, North Dakota	Petroleum Leases	169,600	42,400
Yemen (PDRY)	Production Sharing Agreement .	4,337,796	4,337,796
		5,282,397	4,736,915

(1 Represents acreage held by Siebens (U.K.). Siebens Canada holds 31.7% of the issued and outstanding shares of Siebens (U.K.).

(2) The Company also holds priority rights on 118,097 net acres under dispute between the U.S. Federal Government and the State of Alaska relating to Native Claims. Royalty interests in 17,794 acres located on the North Slope of Alaska are held by the Company as are priority applications on 264,000 gross acres (67,887 net acres) of U.S. Geothermal leases located in the Western United States.

Production

Natural Gas

During the past fiscal year the Company's net sales of natural gas, after all royalties, averaged 25.2 million cubic feet per day, an increase of 39 per cent over the previous year. Sales of gas from new sources such as Verger, Athabasca, West Lavoy and the production attributable to the recently purchased controlling interest in Cavalier Energy Inc. are not fully reflected in this yearly average. The Company's total net production at year end was approximately 33 million cubic feet per day.

Shallow drilling for Bluesky formation gas has found substantial reserves in northwestern Alberta where your Company has large acreage holdings under lease. Five successful wells were drilled in this area last winter and three development wells are planned for this winter. The Company is participating in the construction of a compressor station and gathering system in the Bede Creek area which is to go on stream in November, 1977. Initial net production from this facility will approximate 1 million cubic feet per day.

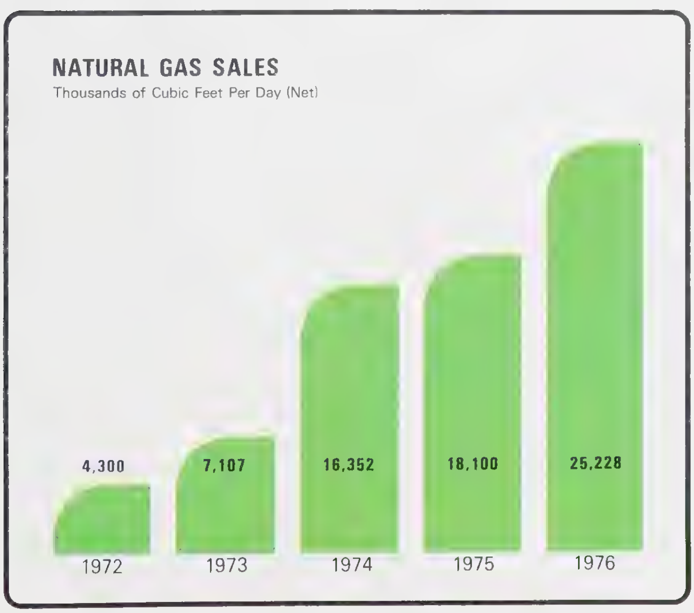
The Company and its subsidiary Cavalier Energy Inc. have interests in eight new projects which are to go on stream during the first quarter of 1977. Four of these, namely Hairy Hills, Willingdon, Matziwin, and Paddle River are operated by other companies. The other four, located at Tower North, Tower South, Wandering River and Verger are operated by the Company or its subsidiary. In total, these projects will add 11 million cubic feet per day to the Company's net production.

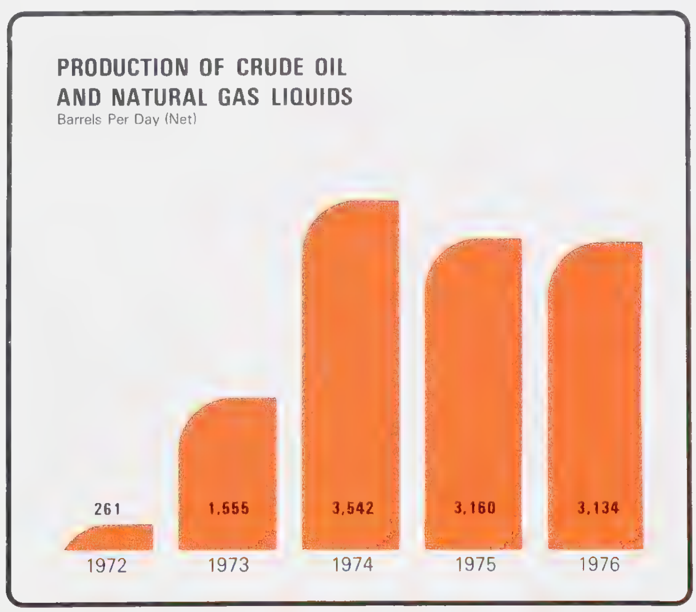
In summary, the Company's net gas production from areas which are already contracted and either tied in or being tied in will be approximately 45 million cubic feet per day by the summer of 1977. This total includes an estimate of two million cubic feet per day of new royalty gas. In the event that contracts for undedicated gas are obtained, the total net production rate could exceed 50 million cubic feet per day by the fall of 1977.

The Company and its subsidiary have a number of gas wells in Saskatchewan which are now shut-in pending favorable market conditions. Due to the low price offered for natural gas in this province, the capital investment needed to put these fields on production cannot be justified. It is hoped that the Saskatchewan Government will increase their field prices to be competitive with Alberta and British Columbia.

During the past year the Company's gas production was 60 per cent royalty and 40 per cent working interest. By next fall it is expected this ratio will reflect a higher working interest percentage although the majority of this working interest production will come from Mineral Title acreage free and clear of Crown Royalty. The royalty interest gas production will still be very significant since the profit margin on royalty gas is two to three times that of working interest gas. This profit margin results from the fact that royalty production does not bear Crown Royalty and lifting costs as these usually are attributable to working interest production.

The average price for natural gas received by the Company during the year was \$0.97 per Mcf. The wellhead price for Alberta gas is predicted to be \$1.30 per Mcf on January 1, 1977 with further increases expected by next fall.

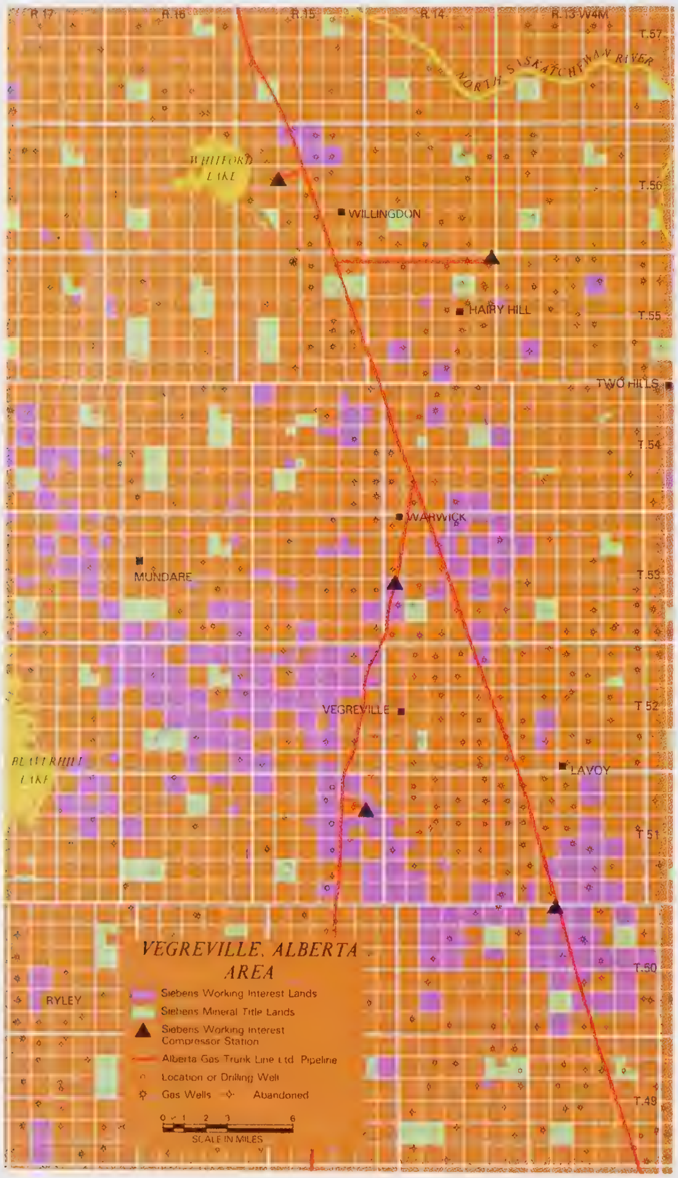




Oil and Natural Gas Liquids

Production of crude oil and natural gas liquids, after deduction of all royalties averaged 3,134 barrels per day, a decrease of one per cent from last year's average. This decrease was due mainly to reduced allowables which resulted from the cutback in exports to the United States.

Royalty production accounts for 85 per cent of the Company's oil and natural gas liquids production. As in the case of gas this is very significant due to the large leverage of the profit margins.



Source of Production

Oil Production (Net)

Barrels/Day

Area	1976	1975
Alberta:		
Bonnie Glen	317	365
Fenn BV (Caprona)	219	235
Pembina	200	253
Harmatton Elkton	136	125
Willesden Green	121	84
Medicine River	90	75
Wainwright	82	118
Provost	71	60
Redwater	67	68
Leduc	62	64
Chauvin	54	58
Westerose	52	49
Joarcam	41	44
Garrington	40	27
Cessford	27	25
Sunset	26	45
Other	888	708
Sub-total:	2,493	2,403
Saskatchewan:		
Sub-total:	619	732
Manitoba:		
Sub-total:	22	25
TOTAL:	3,134	3,160

Gas Production (Net)

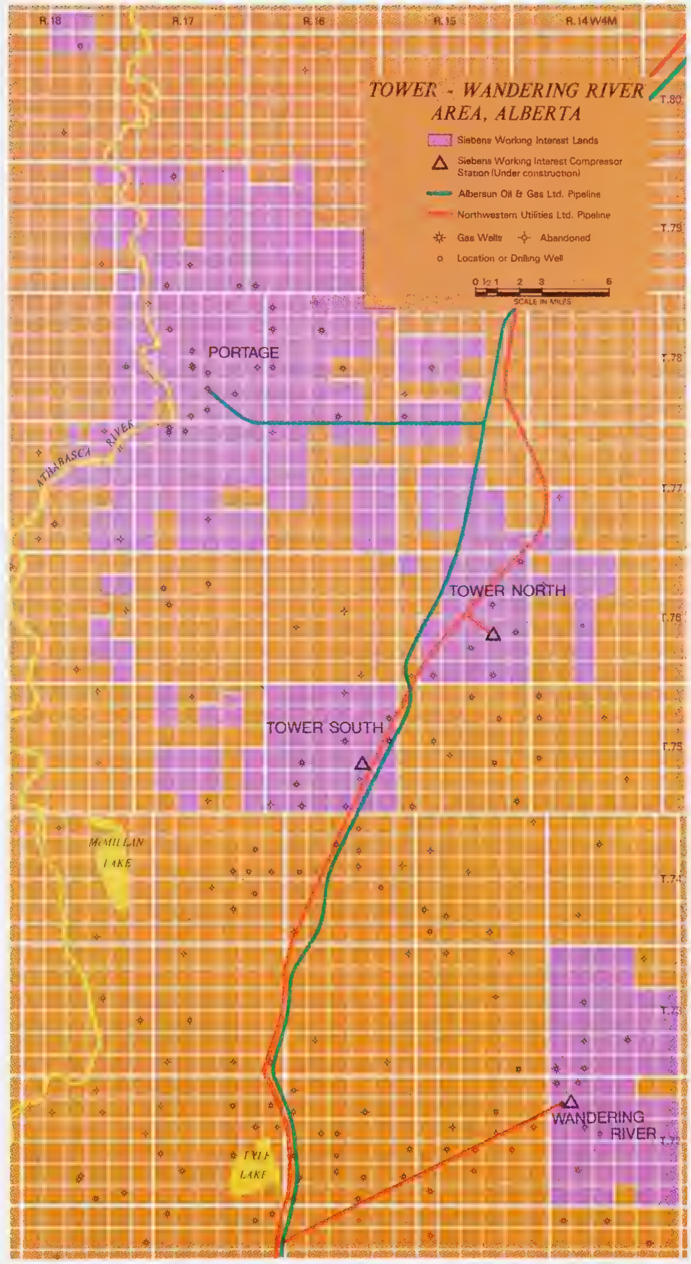
MCF/Day

Area	1976	1975
Alberta:		
Gilby	2,306	375
Enchant	2,023	2,982
Medicine Hat	1,902	1,287
Portage	1,358	569
Harmatton Elkton	692	234
Westerose	646	689
Verger/Matziwin	636	—
Sylvan Lake	595	206
Braeburn	583	389
Provost	578	561
Cessford	578	366
Wildcat Hills	495	512
Garrington	433	357
Minnehik-Buck Lake	382	415
Medicine River	317	14
Nevis	277	187
Ghost Pine	258	328
Inland	190	569
Wimbourne	171	314
Crossfield	164	193
Others	10,383	7,256
Sub-total:	24,967	17,803
Saskatchewan:		
Sub-total:	261	297
TOTAL:	25,228	18,100

General Operations

The Company and its subsidiary Cavalier Energy Inc. operate 10 gas treating and compressor stations in Alberta. These plants have a gross output of 42 million cubic feet of gas per day. Engineering design and construction on three new compressor stations at Tower North, Tower South and Wandering River is progressing favorably and it is anticipated that these facilities will be placed on stream during the first half of 1977. The gross output from these three stations will be in the range of 20 to 25 million cubic feet per day.

Emphasis is being given to unitization projects which allow the working interest owners in a given area to consolidate all of the development and production facilities into a single operation. The Company or its subsidiary presently has working interest in eleven units and is the operator of three units. At year end it was participating in the negotiations for the formation of another five units.



Reserves

The Company's net remaining recoverable reserves at year end as estimated by McDaniel Consultants (1965) Ltd. are shown on the accompanying Table.

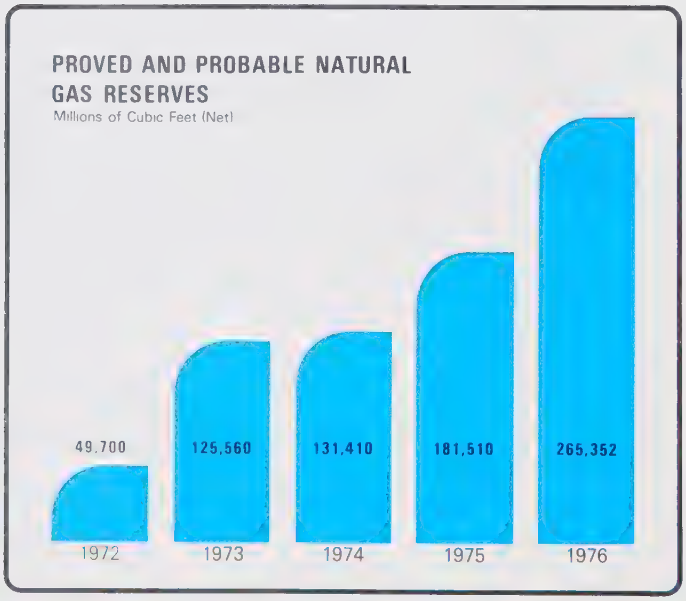
Net Reserves of proven and probable natural gas showed an overall increase of 84 billion cubic feet to a total of 265 billion cubic feet. This increase of 46 per cent was due mainly to successful exploratory and development drilling. Other significant factors contributing to this increase were the successful wells drilled by other companies on Siebens' mineral title holdings and the acquisition of a controlling interest in Cavalier Energy Inc. Based on 1976 production the reserves life index for these reserves is now 29 years.

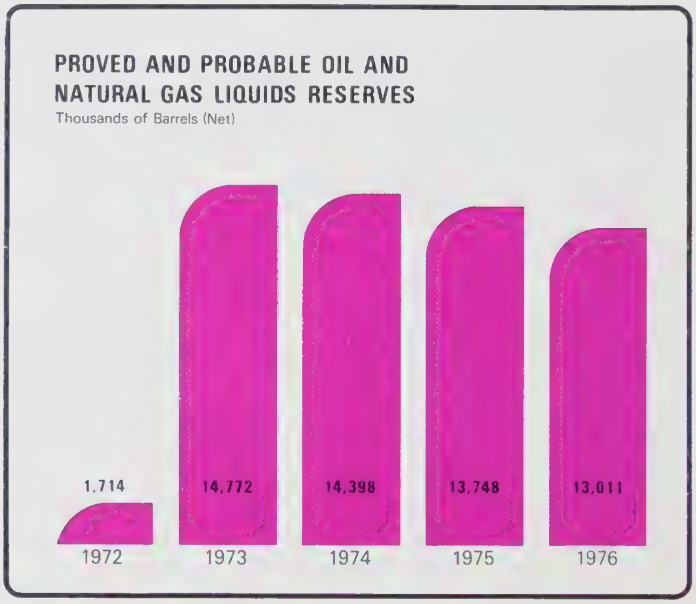
Proven and probable net reserves of oil and natural gas liquids decreased by 5 per cent to 13,000,000 barrels. Reserves added during the year by the drilling of successful exploratory and development wells added 407,000 barrels and production was 1,144,000 barrels for a net decrease of 737,000 barrels. At 1976 production rates these reserves represent a life index of 11 years.

The Company's natural gas reserves which are attributable to royalty and working interest changed quite significantly during the past year. In 1975, royalty gas amounted to 55 per cent of the total gas reserves whereas at the end of 1976 this percentage had decreased to 38. Oil and natural gas liquids reserves showed a decrease with the royalty percentage going from 91 per cent in 1975 to 83 per cent in 1976.

"Proven Reserves" are those reserves which, to a high degree of certainty, are recoverable under present depletion methods, current operating conditions, prices and costs. "Probable Reserves" are those assigned to field areas which are believed to be partially productive and to undrilled tracts closely associated with proven reserves. In addition, oil reserves which may be recovered by the future installation of some form of pressure maintenance or other enhanced recovery scheme are included in the probable category.

In order to clarify the breakdown of the Company's reserves they are categorized on the tables into gross and net after royalties.





Reserves of Oil, Natural Gas Liquids, Natural Gas and Sulphur
October 31, 1976

	Gross Reserves			Net Reserves		
	Proven	Probable	Total	Proven	Probable	Total
Crude Oil (barrels)	7,954,600	4,611,600	12,566,200	7,606,100	4,323,400	11,929,500
Natural Gas Liquids (barrels)	1,031,000	66,600	1,097,600	1,016,200	66,400	1,082,600
Natural Gas (Millions of cubic feet)	272,688	84,189	356,877	201,524	63,828	265,352
Sulphur (long tons)	38,200	3,920	42,120	36,320	3,895	40,215

Financial Review

A combination of higher production volume and increased product prices has resulted in the most significant year of growth in the Company's history.

Net earnings reached a record $10,646,000 a 114% increase over the prior year. Cash flow increased by $7,126,000 to $16,117,000, a 79% increase over Cash Flow in 1975. Gross revenue of $18,861,000 represented an increase of 76% over the corresponding figure in 1975.

Oil and gas sales increased $8,404,000 over the prior year. Higher product prices accounted for $6,988,000, or 83% of the increase, while increased production accounted for $1,416,000, 17% of the change for the year.

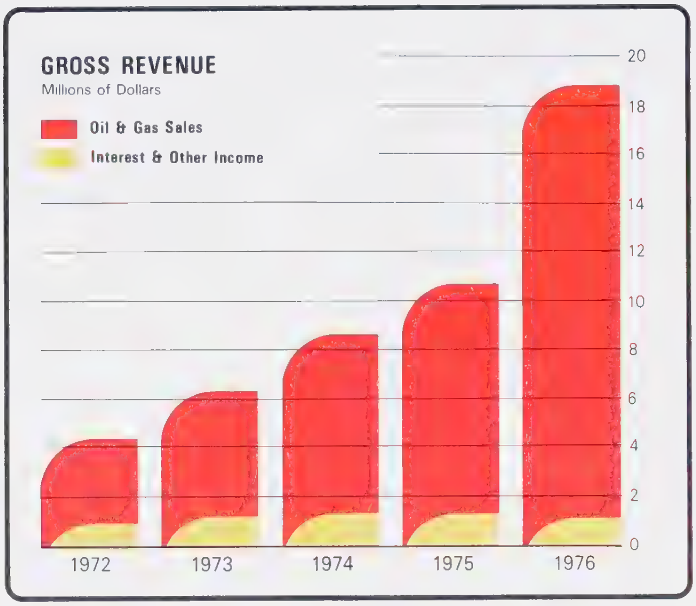
Cash Flow of $16,117,000 combined with additional bank debt of $8,962,000 plus miscellaneous revenue provided a total source of funds of $25,874,000. Additions to property, plant and equipment accounted for $18,025,000 and the purchase of Cavalier Energy Inc. required $7,508,000.

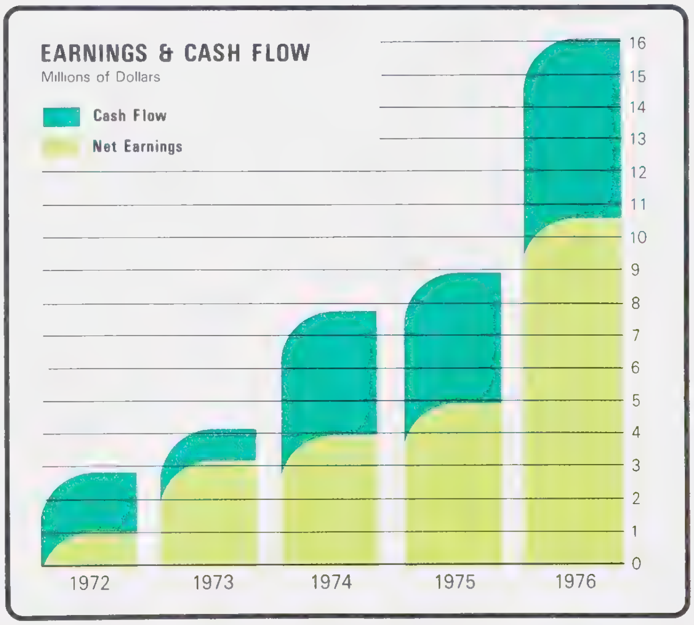
In April 1976, the Company was asked by the Saskatchewan Government to remit the royalty surcharge owing to the Province as a result of production accruing between the date of acquisition (effective date of Bill 42 — January 1, 1974) and April 1, 1976. In Siebens' case this royalty surcharge amounted to $1,400,000. This amount was paid to the Saskatchewan Government under formal written protest. Subsequent to April 1, 1976, the Government advised producers to pay the royalty surcharge directly to the Saskatchewan Government. The devastating economic effects of Bill 42 continue to preclude the company from exploring for oil or gas in the Province of Saskatchewan.

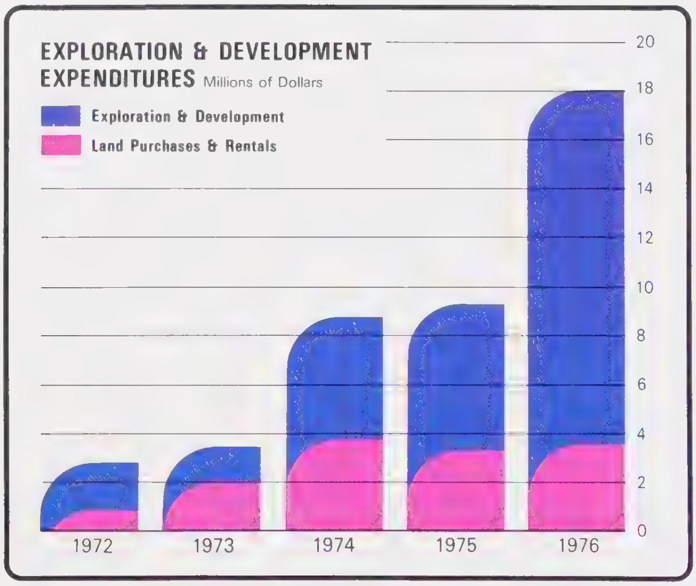
The increase in general and administrative expenses of $340,000 over the prior year reflects the additions in staff required to handle the increased exploration, production and accounting functions.

Production costs have increased $675,000 compared to the prior year. The impact of inflation and the increased number of producing properties have increased the Company's total expenditure on production costs by 148%.

After giving consideration to the current difficulty in obtaining gas contracts, and assuming there are no adverse economic or political changes the Company is confident that additional growth will be experienced in 1977. The Company estimates that for the year ending October 31, 1977, consolidated gross revenue will increase 50% to $28,000,000, Cash Flow to $21,000,000 and net earnings to $13,700,000.







Consolidated Balance Sheet

As at October 31, 1976

Assets

	1976	1975
		(note 1)
CURRENT ASSETS		
Cash	**$ 150,000**	$ 82,000
Marketable securities, at cost (quoted market value 1976 — $60,000; 1975 — $2,455,000)	**60,000**	2,422,000
Accounts receivable	**4,680,000**	1,627,000
Income taxes recoverable	**2,119,000**	—
	7,009,000	4,131,000
INVESTMENTS (note 3)	**12,883,000**	13,154,000
PROPERTY, PLANT AND EQUIPMENT		
Petroleum and natural gas leases and rights, together with exploration, development and equipment thereon, at cost (note 1)	**51,113,000**	23,546,000
Accumulated depletion and depreciation	**4,884,000**	2,913,000
	46,229,000	20,633,000
Other equipment, at cost less accumulated depreciation 1976 — $123,000; 1975 — $73,000	**104,000**	67,000
	46,333,000	20,700,000
	$66,225,000	$37,985,000

Approved by the Board:

Wm. W. Siebens Director

Director

Liabilities

	1976	1975
		(note 1)
CURRENT LIABILITIES		
Bank indebtedness, secured	**$ 4,594,000**	$ 2,468,000
Accounts payable and accrued liabilities	**4,134,000**	3,142,000
Income taxes	**—**	581,000
Current maturities on bank production loans	**1,840,000**	—
	10,568,000	6,191,000
GAS PRODUCTION PREPAYMENT	**258,000**	47,000
BANK PRODUCTION LOANS (note 4)	**8,113,000**	—
DEFERRED INCOME TAXES (note 1)	**8,828,000**	4,640,000
MINORITY INTEREST	**705,000**	—
CONTINGENT LIABILITIES (note 5)		

Shareholders' Equity

CAPITAL STOCK (NOTE 6)		
Authorized		
12,000,000 shares without nominal or par value		
Issued		
9,198,856 (1975 — 9,185,065) shares	**13,513,000**	13,513,000
CONTRIBUTED SURPLUS	**3,448,000**	3,448,000
RETAINED EARNINGS (note 7)	**20,792,000**	10,146,000
	37,753,000	27,107,000
	$66,225,000	$37,985,000

Consolidated Statement of Earnings

Year Ended October 31, 1976

	1976	1975 (note 1)
REVENUE		
Oil and gas	**$17,755,000**	$ 9,351,000
Investment	**1,098,000**	771,000
Other	**8,000**	587,000
	18,861,000	10,709,000
EXPENSES		
Production expenses	**1,129,000**	454,000
General and administrative	**752,000**	412,000
Interest on bank production loans	**254,000**	—
Other interest	**243,000**	121,000
Depletion and amortization	**1,614,000**	2,778,000
Depreciation	**391,000**	191,000
	4,383,000	3,956,000
Earnings before income taxes	**14,478,000**	6,753,000
INCOME TAXES		
Current	**288,000**	586,000
Deferred	**3,544,000**	1,205,000
	3,832,000	1,791,000
NET EARNINGS	**$10,646,000**	$ 4,962,000
NET EARNINGS PER SHARE	**$1.16**	$.54

Consolidated Statement of Retained Earnings

Year Ended October 31, 1976

BALANCE AT BEGINNING OF YEAR, as previously reported	**$10,845,000**	$ 5,292,000
Adjustment of prior years' oil and gas royalties (note 1)	**699,000**	108,000
BALANCE AT BEGINNING OF YEAR, as restated	**10,146,000**	5,184,000
Net earnings	**10,646,000**	4,962,000
BALANCE AT END OF YEAR	**$20,792,000**	$10,146,000

Consolidated Statement of Changes in Financial Position

Year Ended October 31, 1976

	1976	1975 (note 1)
SOURCE OF FUNDS		
From operations	**$16,117,000**	$ 8,991,000
Investments	**517,000**	—
Sale of petroleum and natural gas rights	**250,000**	479,000
Bank production loans, including $8,521,000 relating to the acquisition of Cavalier (note 2)	**8,962,000**	—
Reclassification of investment to marketable securities	—	1,748,000
Other	**28,000**	(25,000)
	25,874,000	11,193,000
APPLICATION OF FUNDS		
Acquisition of net assets of Cavalier, net of working capital (note 2)	**7,508,000**	—
Property, plant and equipment	**18,025,000**	9,261,000
Current maturities on bank production loans	**1,840,000**	—
Investments	—	10,009,000
	27,373,000	19,270,000
DECREASE IN WORKING CAPITAL	**$ 1,499,000**	$ 8,077,000

Auditors' Report

To the Shareholders of
Siebens Oil & Gas Ltd.

We have examined the consolidated balance sheet of Siebens Oil & Gas Ltd. and its subsidiaries as at October 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 31, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

(Signed)
Thorne Riddell & Co.
Chartered Accountants

Calgary, Alberta
December 17, 1976

Notes to Consolidated Financial Statements

Year Ended October 31, 1976

1. ACCOUNTING POLICIES

a) Principles of Consolidation

The consolidated financial statements include the accounts of Siebens Oil & Gas Ltd. (the Company) and its subsidiaries, Siebens Oil & Minerals, Inc., Siebens Oil & Gas (Malta) Limited, Siebens Oil & Gas (Vietnam) Ltd., Siebens Oil & Gas (S.E. Asia) Ltd. and Cavalier Energy Inc. (Cavalier). All subsidiaries are wholly-owned with the exception of Cavalier in which the Company has an 83% interest.

The Company follows the equity method of accounting for its investment in Siebens Oil & Gas (UK) Limited (Siebens (UK)). Under this method, the Company's investment is carried on the balance sheet at cost plus its share of net increases or decreases in the shareholders' equity accounts of Siebens (UK). The Company's share of the income and expenses of Siebens (UK) have been included in the Company's consolidated statement of earnings on an item-by-item basis.

The excess of the cost of the shares of Siebens (UK) ($1,352,000) and Cavalier (see note 2) over the underlying book value of their net assets at the dates of acquisition has been allocated to petroleum and natural gas properties and will be amortized on the same basis as the related assets as outlined below.

b) Petroleum and Natural Gas Operations

The companies follow the "full-cost method" of accounting for their petroleum and natural gas operations. Under this method all costs of exploring for and developing oil and gas reserves are capitalized and charged to income as set out below.

(i) Costs incurred in North America are being depleted using the unit of production method based on estimated recoverable North American reserves as determined by Company engineers.

(ii) Prior to May 31, 1975, costs incurred by Siebens (UK) in the North Sea area were being amortized on a straight-line basis at the rate of 10% per annum; at that date, exploration in the North Sea was determined to have been successful and, accordingly, the unamortized portion of North Sea costs will be depleted upon commencement of production using the unit of production method based on estimated recoverable reserves in the North Sea.

(iii) The costs of exploration in other foreign areas will be depleted on the basis of oil and gas reserves as and when discovered or written-off to income if exploration in any area is determined to be unsuccessful.

c) Income Taxes

The companies follow the tax allocation method of accounting under which the income tax provision is based on the earnings reported in their accounts. Under this method, the companies provide for deferred income taxes to the extent that income taxes otherwise payable are eliminated by claiming capital cost allowances and exploration and development costs in excess of the depreciation and depletion provisions reflected in their accounts.

d) Foreign Currencies

The accounts of foreign subsidiaries are converted to Canadian dollars on the following bases:

(i) Current assets and current liabilities, at the rate of exchange in effect as at the balance sheet date.

(ii) Fixed assets, at the average rate of exchange for the years in which the respective assets were acquired.

(iii) Revenue and expenses (excluding depletion and amortization which are converted at the same rates as the related assets), at the average rate of exchange for the year.

The loss on conversion has been charged to earnings.

e) Prior Period Adjustment

During 1976 the Company paid to the Saskatchewan Provincial Government $1,002,000 in respect of additional oil and gas royalties relating to prior periods. Retained earnings at October 31, 1975 have been restated from those previously reported to show a retroactive charge of $699,000 representing the cumulative amount, net of income taxes, by which oil and gas royalties as at October 31, 1975 had been increased. Of this amount, $591,000 ($.06 per share) is applicable to the 1975 fiscal year and $108,000 ($.01 per share) is applicable to the 1974 fiscal year. Net earnings for 1975 (previously reported at $5,553,000 — $.60 per share) and retained earnings as at October 31, 1974 have been restated accordingly.

2. ACQUISITION OF CAVALIER ENERGY INC.

During 1976 the Company acquired 83% of the outstanding common shares of Cavalier, a publicly-held Canadian oil and gas exploration and production company, for a cash consideration of $8,669,000. This business combination was accounted for as a purchase and the results of operations of Cavalier have been included in the consolidated statement of earnings since July 31, 1976, the effective date of acquisition.

The acquisition is summarized as follows:

Current assets		$2,403,000
Current liabilities		1,242,000
		1,161,000
Investments		118,000
Property, plant and equipment		4,430,000
Other assets		36,000
		5,745,000
Long-term debt	$991,000	
Gas production prepayment	259,000	
Deferred income taxes	662,000	1,912,000
Book value of net assets		3,833,000
Excess of the cost of shares of Cavalier over underlying net book value, assigned to petroleum and natural gas properties		5,489,000
		9,322,000
Minority interest		653,000
Purchase consideration		$8,669,000

3. INVESTMENTS

	1976	1975
Siebens Oil & Gas (UK) Limited		
Investment — 31.7% share interest	**$12,315,000**	$12,208,000
Account receivable	**429,000**	946,000
Western Resources Minerals Limited		
45% share interest held by Cavalier	**139,000**	—
	$12,883,000	$13,154,000

4. BANK PRODUCTION LOANS

Siebens Oil & Gas Ltd.	$8,521,000
Cavalier Energy Inc.	1,432,000
	9,953,000
Less current maturities included in current liabilities	1,840,000
	$8,113,000

The bank production loans are evidenced by demand promissory notes repayable at approximately $178,000 per month, bear interest at 3/4% above a bank prime lending rate and are secured by the companies' interest in certain petroleum and natural gas properties and a general assignment of book debts.

Bank loan maturities for each of the five years subsequent to October 31, 1976 are as follows: 1977 — $1,840,000; 1978 — $2,140,000; 1979 — $2,140,000; 1980 — $2,140,000; 1981 — $1,693,000.

5. CONTINGENT LIABILITIES AND COMMITMENTS

As of October 31, 1976, the Company was contingently liable under non-interest bearing demand notes and letters of credit aggregating approximately $2.5 million as security for the performance of work obligations in respect of exploration activities.

6. CAPITAL STOCK

a) During the year, the Company issued 13,791 shares on exercise of stock options. These options were exercised as "market growth" options under which the optionee is not required to make a cash payment and receives shares based on the excess of the market value at the date of exercise over the option price.

b) 235,844 shares of the Company are reserved under a key employee incentive share option plan dated July 16, 1974, of which options on 160,210 shares are outstanding at October 31, 1976 exercisable as "market growth" options in annual instalments to September, 1982 at prices ranging from $5.18 to $12.50 per share.

7. DIVIDEND RESTRICTION

The Company is subject to the Canadian Federal Anti-Inflation Act which provides for the restraint of dividends in Canada. Under the legislation the Company is restricted in the payment of dividends during the period ended October 13, 1977 to a maximum amount of $1,241,000 based on its 1975 earnings.

8. STATUTORY INFORMATION

Directors and senior officers (including the five highest paid employees) of the Company received remuneration of $294,000 during the year ended October 31, 1976.

Siebens
OIL & GAS LTD.
AND SUBSIDIARY COMPANIES

Five Year Summary

	1976	1975 (restated)	1974	1973*	1972
Financial					
(thousands of dollars except per share amounts)					
Revenues					
Oil & Gas Sales	**17,755**	9,351	7,382	5,172	3,408
Investment Income	**1,098**	771	988	1,147	815
Other Income	**8**	587	313	64	105
Total	**18,861**	10,709	8,683	6,383	4,328
Cash Expenses					
Production	**1,129**	454	248	226	162
General & Administration	**752**	412	366	435	267
Interest Expense	**497**	121	—	—	—
Income Taxes	**288**	586	176	1,417	1,077
Total	**2,666**	1,573	790	2,078	1,506
Other Expenses					
Depletion & Amortization	**1,614**	2,778	1,022	458	1,977
Depreciation	**391**	191	88	69	29
Deferred Taxes	**3,544**	1,205	2,830	533	(186)
Total	**5,549**	4,174	3,940	1,060	1,820
Net Earnings	**10,646**	4,962	3,953	3,244	1,002
Per Share	**1.16**	.54	.43	.36	.11
Cash Flow	**16,117**	8,991	7,740	4,185	2,821
Per Share	**1.75**	.98	.84	.46	.31
Balance Sheet Data					
Working Capital	**(3,559)**	(2,060)	6,180	8,254	9,566
Investments	**12,883**	13,154	4,948	3,802	270
Property, Plant & Equipment — Net	**46,333**	20,700	14,635	6,835	3,148
Deferred Income Taxes	**8,828**	4,640	3,491	661	128
Shareholders' Equity	**37,753**	27,107	22,253	18,224	12,868
Other Data					
Shares Outstanding (thousands of shares)	**9,199**	9,185	9,185	9,172	9,056
Number of Shareholders	**1,430**	1,597	1,539	1,430	1,306
Exploration & Development Expenditures					
Land Acquisition & Rentals	**3,585**	3,262	3,774	2,020	819
Geological & Geophysical	**1,736**	586	1,150	285	133
Dry Holes	**3,149**	1,067	2,215	348	1,302
Productive Drilling	**6,897**	3,306	1,260	612	421
Production Equipment	**2,658**	1,009	320	219	146
Total	**18,025**	9,230	8,719	3,484	2,821
Capital Assets of Acquired Companies — Net	**7,508**	—	—	825	—

Five Year Summary (Continued)

Changes in Financial Position

	1976	1975 (restated)	1974	1973*	1972
Source of Funds					
Operations	**16,117**	8,991	7,740	4,185	2,821
Sale of P&NG Rights	**250**	479	—	201	1,304
Issue of Common Shares	—	—	76	1,651	29
Bank Loans	**8,962**	—	—	—	—
Investments	**517**	—	—	—	—
Other	**28**	1,723	14	42	(53)
Total	**25,874**	11,193	7,830	6,079	4,101
Application of Funds					
Property, Plant & Equipment	**18,025**	9,261	8,750	4,404	2,703
Investments	—	10,009	1,154	—	—
Acquisition of Cavalier	**7,508**	—	—	—	—
Dividends of Pooled Subsidiary	—	—	—	2,987	795
Current portion of bank loans	**1,840**	—	—	—	—
Total	**27,373**	19,270	9,904	7,391	3,498
Increase (Decrease) In Working Capital	**(1,499)**	(8,077)	(2,074)	(1,312)	603

*In 1973, the Company's year end was changed from August 31 to October 31. Therefore, 1973 represented 14 months.

Operations

	1976	1975	1974	1973	1972
Production					
Daily Production — barrels	**3,134**	3,160	3,542	1,555	261
— MCF	**25,228**	18,100	16,352	7,107	4,300
Reserves (proven and probable) (*)					
Oil (thousands of barrels)	**11,929**	12,436	13,053	13,020	1,442
NGL (thousands of barrels)	**1,082**	1,312	1,345	1,752	272
Gas (millions of cubic ft.)	**265,352**	181,510	131,410	125,560	49,700
Sulphur (long tons)	**40,215**	42,500	44,770	113,280	53,600
Land Holdings (thousands of acres)					
Canada					
Gross Acres	**22,301**	30,111	57,020	60,212	66,906
Net Acres	**7,808**	11,186	29,565	31,433	32,360
Royalty Acres	**29,125**	39,162	41,530	41,991	46,233
Hudson Bay Mineral Titles	**2,583**	2,970	3,726	4,599	4,599
Foreign					
Gross Acres	**5,282**	9,037	14,145	13,286	5,447
Net Acres	**4,737**	5,658	2,670	1,958	2,578
Royalty Acres	**18**	20	43	82	82

(*) Note Reserves reported are net after Crown and freehold royalties.

		Nov.-Jan.		Feb.-Apr.		May-July		Aug.-Oct.	
		High	Low	High	Low	High	Low	High	Low
Range of Common Share									
Market Prices on	**1974/75**	$ 9.00	4.70	10.25	7.88	14.25	9.00	12.38	8.63
Toronto Stock Exchange	**1975/76**	$11.75	8.38	13.63	10.25	15.75	12.50	14.75	12.25

Directors

J. H. Coleman, Toronto, Ontario
President, J.H.C. Associates Limited

F. N. Hughes, Edmonton, Alberta
Vice-Chairman, O.P.I. Limited

J. G. Hutchison, Calgary, Alberta
Financial Consultant

W. D. C. Mackenzie, Calgary, Alberta
President, W.D.C. Mackenzie Consultants Ltd.

W. W. Siebens, Calgary, Alberta
President, Siebens Oil & Gas Ltd.

P. W. Wood, Toronto, Ontario
Vice-President, Finance
Hudson's Bay Company

Officers

W. W. Siebens, President
J. A. Dabbs, Vice President
D. E. McPhee, Secretary
R. A. Tourigny, Treasurer-Comptroller

Senior Personnel

G. Fong, Exploration Manager
R. G. Gould, Foreign and Special Projects Manager
W. A. McLean, Production Manager
R. G. Anderson, Land Manager
J. W. Rogers, Offshore Drilling Manager, London Office

Head Office

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Calgary, Alberta T2P 0J1
Telephone — (403) 263-3470 Telex No. — 03-825502

Foreign Operations Office

5th Floor, 14 Waterloo Place
London, England SW1Y 4AR
Telephone — (01) 839-6212 Telex No. — 51-917960

Subsidiaries

Cavalier Energy Inc. - 83%
Siebens Oil & Gas (Malta) Limited - 100%
Siebens Oil & Gas (S.E. Asia) Ltd. - 100%
Siebens Oil & Gas (Vietnam) Ltd. - 100%
Siebens Oil & Minerals, Inc. - 100%

Affiliates

Siebens Oil & Gas (U.K.) Limited - 31.7%
Hibernian Oil & Gas Limited - 25.4%

Bankers

The Royal Bank of Canada
Calgary, Alberta

Auditors

Thorne Riddell & Co.
Calgary, Alberta

Solicitors

Macleod Dixon
Calgary, Alberta

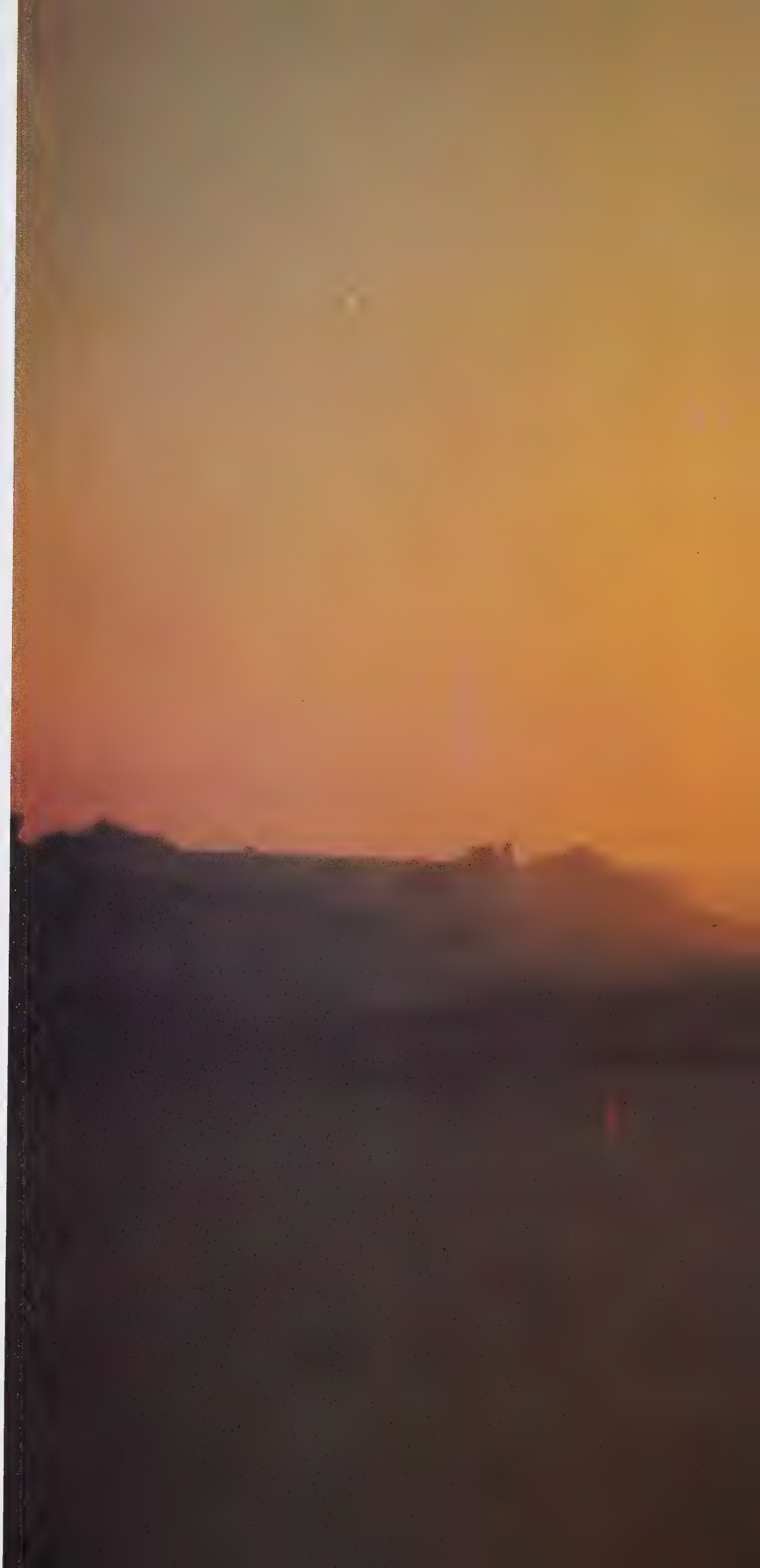
Registrars and Transfer Agents

Montreal Trust Company
Calgary, Vancouver, Regina, Winnipeg,
Toronto, Montreal

Stock Exchange Listings

Toronto Stock Exchange
Montreal Stock Exchange

Siebens oil & gas ltd.
Annual Report 1976



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Siebens OIL & GAS LTD.

INTERIM REPORT TO SHAREHOLDERS

FOR THE SIX MONTHS ENDED
APRIL 30, 1976

PRINTED IN CANADA

TO THE SHAREHOLDERS

FINANCIAL

The Company continued to show improved financial results for the six months ended April 30, 1976. Gross revenues increased 69% to $8,641,000. Cash flow increased by 59% to $7,635,000 as compared to $4,801,000 for the corresponding six month period ending April 30, 1975.

Net earnings increased to $4,888,000 or $.53 per share, a 30% improvement over the previous corresponding six month period.

On the basis of the first six months performance, the Company is confident that the 1976 budget figures which were disclosed in the Annual Report will be achieved. The annual budgeted figures were $20 million for gross revenue, $16.6 million for cash flow, and $12 million for net earnings.

Exploration and development expenditures for the six month period ended April 30, 1976 were $8,408,000 as compared to $3,033,000 for the six months ended April 30, 1976. Over 90% of the Company's estimated $16.6 million cash flow for the year ended October 31, 1976 will be expended on Canadian exploration and development.

CANADIAN OPERATIONS

Western Canada

During the six month period ending April 30, 1976 the Company continued to accelerate it's drilling program and participated in the drilling of 73 wells. Forty-three wells were Company operated and 30 were operated by others. Eight were cased and completed as oil wells and 44 as gas wells. Twenty-seven exploratory wells were dry and abandoned.

In addition to the above, six wells were drilled at no cost to the Company with three completed as gas wells. During the same period 33 wells were drilled on Siebens mineral title acreage under a long term option to Hudson's Bay Oil & Gas Company Limited which resulted in 16 gas and 12 oil completions. The Company retains a 20% overriding royalty on wells drilled by HBOG under this operating agreement.

With cash flows increasing substantially as a result of drilling successes, the Company has planned an active program for the remaining six months of the fiscal year beginning May 1, 1976. A minimum of 41 exploratory and 17 development wells will be Company operated and at least 11 wells operated by others but with Siebens maintaining sizable working interests. HBOG, under the above operating agreement, have thus far committed to an additional 32 wells.

1976 will undoubtedly represent the most active drilling year in the history of the Company and we would anticipate significant additions to company reserves resulting in increasing future cash flows.

Beaufort Sea

Two and possibly three ice-strengthened drill ships are expected to arrive in the Beaufort Sea to commence a drilling program in August 1976 to evaluate the numerous structures present offshore the MacKenzie Delta. Of particular significance to the Company is one of the announced locations, Dome et al Kopanoar K-24 which will be drilled about 3½ miles north of Permit W 2569 in which Siebens holds a 50% interest covering an area of 43,255 acres. Federal Government approval of the Beaufort Sea drilling program was recently obtained and will stimulate exploration in this area for several years. The Company's 3.2 million acres of royalty lands in the Beaufort Sea will also be evaluated during the coming summers by the offshore drilling program.

Arctic Islands

Panarctic Oils Ltd. has recently commenced the drilling of a 12,000 foot exploratory well on Vanier Island. Panarctic et al Key Point D-51 lies approximately four miles east of a large

block of permits owned 25% by Siebens situated offshore in Austin Channel between Melville and Bathurst Islands. Devonian reef buildups, similar to those encountered in the Bent Horn discovery 13 miles to the north, are the objective of this well. These offsetting permits are part of a block optioned to Phillips Petroleum Canada Ltd. under the terms of an agreement whereby Phillips can earn a working interest by carrying Siebens' obligations on the permits. The proximity of the Company lands to this exploratory well could be significant in the event of a Devonian reef discovery.

East Coast

The Canadian national oil company, Petro Canada will join Murphy Oil Company Ltd. and Shell Canada Ltd. this summer in the drilling of an appraisal well in the Sydney Basin, offshore Cape Breton Island. It will offset by a half mile the Murphy et al North Sydney P-05 well which had indications of gas when drilled. Both wells are located on lands in which Siebens holds a 1½% gross overriding royalty. The Petro Canada well will commence drilling upon completion of the currently drilling Petro Can Mobil Hesper H-52 well.

SIEBENS OIL & GAS (U.K.) LTD.

U.K. North Sea

Block 2/10

As reported in the 1975 Annual Report, 2/10-2, the initial appraisal well to the 2/10-1A indicated oil discovery, was abandoned in December, 1975 after encountering a thick Jurassic sandstone interval in which the porosity was infilled with silica. The second delineation well, 2/10-3 located on the crest of the domal anomaly, was abandoned in April, 1976. High gas pressures and frequent oil shows encountered while drilling the Jurassic section were encouraging but, upon drillstem testing, the reservoir was found to be undersaturated with hydrocarbons indicating migration of the former accumulation.

Block 3/28

An exploratory well was commenced in April, 1976 to evaluate a Paleocene structure in Block 3/28. The well penetrated approximately 200 net feet of highly porous, heavily oil saturated sandstone, which would not flow on drillstem testing due to its 18.5° API gravity and high viscosity. The oil reserves estimated to be in place in this structure are very high and would have been classified as a major discovery had the oil been of higher gravity. The accumulation is not economic at this time and will require further study to determine its potential worth.

Block 16/7

Further appraisal drilling will be undertaken on Block 16/7 this summer to delineate the Jurassic oil reserves of the Brae Field. Siebens UK holds an 8% working interest in Blocks 16/3 and 16/7 and a 10% working interest in Block 16/2. The first appraisal well, 16/7-3, was completed in January this year at a location four miles southwest of the discovery well. Over 1,000 feet of continuous reservoir was tested at combined flow rates totalling 13,939 barrels of 36° API gravity oil per day with a gas-oil ratio of approximately 1600 cubic feet per barrel. The additional appraisal drilling is required to confirm the seismic interpretation which indicates the limits of the Brae Field could extend a considerable distance laterally.

German North Sea

The drilling of a joint anomaly extending over German North Sea Blocks J18 and M3 was commenced on May 16, 1976. Valmar Corporation and partners are operating the well in Block J18, one kilometer north of the boundary of the Siebens UK 45% interest Block M3. The well will evaluate a large structure and will terminate in the Triassic Bunter formation at a depth of approximately 9,000'. About one half of the structure lies in the M3 block and a successful well could establish considerable reserves for Siebens UK. Union Texas will start drilling this fall on Block J13 in which Siebens UK will retain a 22½% carried interest.

W. W. SIEBENS
President

May, 1976

SIEBENS OIL & GAS LTD.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS
(Unaudited)

	Six Months Ended April 30 1976	Six Months Ended April 30 1975 (Restated)
REVENUE		
Oil and gas sales	$ 7,692,919	$ 4,272,808
Interest	214,891	383,692
Other	733,369	470,000
	$ 8,641,179	$ 5,126,500
EXPENSES		
Production Expenses	354,391	249,905
Interest	88,076	—
General and administrative	322,444	175,202
Depletion and amortization	541,189	1,767,706
Depreciation	97,380	43,836
	1,403,480	2,236,649
NET EARNINGS BEFORE INCOME TAXES	7,237,699	2,889,851
INCOME TAXES		
Current	262,088	35,188
Deferred	2,088,000	726,360
	2,350,088	761,548
NET EARNINGS	$ 4,887,611	$ 2,128,303
NET EARNINGS PER SHARE	53¢	23¢

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(Unaudited)

	Six Months Ended April 30 1976	Six Months Ended April 30 1975 (Restated)
SOURCE OF FUNDS		
From operations	$ 7,634,776	$ 4,801,195
Other	3,499	(165,677)
	7,638,275	4,635,518
APPLICATION OF FUNDS		
Additions to Property, Plant and Equipment	8,408,396	3,033,382
Additional Investment in Siebens Oil & Gas (UK) Ltd.	(363,167)	—
Investments	—	594,316
	8,045,229	3,627,698
INCREASE (DECREASE) IN WORKING CAPITAL	$ (406,954)	$ 1,007,820
CASH FLOW PER SHARE	83¢	52¢

NOTE

Figures for the six months ended April 30, 1975 have been restated to reflect a retroactive provincial royalty adjustment which reduced net profit, after taxes, by $211,000.